4 January 2024

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Our Ref: LGF/RBCIO
Your Ref:
File Ref:

By email to: localplan@rugby.gov.uk

Dear Sir / Madam,

RUGBY BOROUGH LOCAL PLAN REVIEW: ISSUES AND OPTIONS CONSULTATION

Introduction and Context

On behalf of landowner Clients with interests to the south of Junction 1 of the M69, Lambert Smith Hampton (LSH) is instructed to submit representations to the Issues and Options Consultation being undertaken by Rugby Borough Council as part of the Local Plan Review. The representations are being made concurrently with a submission to the Call for Sites exercise, which sets out in more detail our clients' ownership and the opportunity that exists for development within their land. Nonetheless, for reference, these representations concern approximately 16.76 hectares (41.42 acres) of Greenbelt land to the immediate south of Junction 1 of the M69 and the A5 Watling Street, herein referred to as "the site". The site comprises Leicester Grange Farm, which accommodates the Barnacles Restaurant together with ancillary commercial, residential and equestrian premises, and an adjacent parcel of land to the east which also fronts the A5.

The representations follow recent early engagement with the Council's Chief Officer for Growth and Investment and the Development Strategy Manager as to the long-term development potential of the site. The proposed strategy of promoting the site through the Local Plan Review was encouraged by Officers, particularly given the site's location within the Green Belt, the boundaries of which will need to be reviewed through the Local Plan Review in order to establish suitable locations for growth. It was also acknowledged that in order to ensure an adequate supply of land for employment uses over the Plan period (to either 2041 or 2050), it would be necessary to consider the release of Green Belt land, especially given the extent of the Borough's strategic road network that falls within the Green Belt. With this in mind, these representations are made with particular regard to section 3 of the Issues and Options consultation document, the focus of which is land for employment uses. Accordingly, the representations are structured in response to the six questions posed under this section.

1. How much employment land should we be planning for?

With reference to the 2022 Coventry and Warwickshire Housing and Economic Development Needs Assessment (HEDNA), there is evidently an acute need for strategic warehousing land across the Coventry and Warwickshire sub-regional area; namely, 551 hectares for the period up to 2041 and 735 hectares for the period up to 2050. The amount of employment land dedicated to strategic warehousing is clearly a matter to be agreed at a sub-regional level, and at this stage, it is considered too premature to comment on the exact quantum to be accommodated within Rugby Borough. This remains the case until such time that the new West Midlands Strategic Employment Sites Study is published in order to update the position on the supply of sites within the region. It is understood that the Study will assess every junction of the region's strategic road network and will provide comment on the capacity of junctions to accommodate growth. This is a crucial piece of the evidence-base which will ultimately inform the Spatial Strategy to be pursued through the Local Plan Review; it is therefore considered to be too early in the plan-making process to identify potential locations for employment land, as the necessary evidence assessing all possible locations within the Borough has not yet been published for review.

Similarly, whilst the findings of the HEDNA are acknowledged in regard to the need for industrial land within the Borough up to 2041 and 2050, at this stage it is only appropriate for us to endorse the recommendations and suggest that these are considered concurrently with the Strategic Employment Sites Study and Green Belt Review in order to holistically review the most suitable locations for new employment land. The preliminary findings of this exercise should then be presented back to stakeholders in the form of a second Regulation 18 consultation, which provides a renewed opportunity to comment on the quantum of employment land that should be planned for in the new Local Plan. Given the significance of this discussion to local and sub-regional economic growth, and the range of business interests that will need to be considered as a result, it is recommended that the LPA also undertake in-person stakeholder engagement sessions at the earliest opportunity, and in advance of any subsequent Regulation 18 consultation, which LSH would welcome involvement with. This will allow for a more up-to-date and focussed understanding of employment land needs, particularly amongst those local SMEs which have expressed concern over the lack of incubator and 'grow on' space within the Borough. In this regard, it is important to note that the stakeholder consultation undertaken as part of the HEDNA suggested that whilst demand for B8 uses is very strong across the sub-regional area, there is a need for separate allocations for light industrial and industrial use in order to support the strong manufacturing sector that exists and requires further support. LSH would welcome further discussion in respect of this matter.

2. What type of employment land should we be planning for?

Notwithstanding the acute need that exists at the sub-regional level for strategic warehousing land, it is imperative that a sufficient supply of employment land is allocated specifically for smaller-scale light industrial (Class E(g)(iii)) and industrial (Class B2) uses as well as smaller "mid-box" units of below 9,000 sqm. This will avoid the uncompetitive land supply scenario that is typical within the 'Golden Triangle' whereby the delivery of strategic employment allocations is over reliant on the development of speculative 'big box' strategic warehousing by international logistics companies, which in turn makes it harder for local businesses for find suitable premises to grow and innovate. With this in mind, it is considered entirely appropriate for the new Local Plan to distinguish between, and provide for, both strategic and non-strategic employment land allocations, so as to ensure a sufficient supply of small sites can come forward to accommodate local needs. It is also encouraged that the LPA follow the recommendation of the HEDNA in allocating sites specifically for light industrial and industrial uses. This will not only help to address the concerns of local businesses around the shortage of incubator and 'grow on' space (which LSH shares as a result of our work supporting businesses within the Borough), but also provides a robust and diverse employment land position (i.e. a positive mix of Class E(g)(iii)/B2/B8), from which an Economic Strategy can be formed in tandem with the Local Plan Review.

3. Please provide any comments you have on the suitability of any of the broad locations listed above (or another location we have missed)

The Issues and Options consultation documents identifies 8 potential strategic employment locations, of which 5 are located within the Borough's Green Belt. Whilst it is acknowledged at paragraph 3.42 that the LPA will consider alterations to the Green Belt where there are exceptional circumstances to do so, there needs to be a greater recognition of the dependency on Green Belt release to provide an adequate and proportionate supply of new, strategic and non-strategic employment land. At paragraphs 3.38 and 3.39, it is rightly acknowledged that land for large-scale manufacturing and distribution uses needs to be located closely to A-roads and motorways (i.e. the strategic road network) and existing settlements so as to allow easy access to work. However, given the proportion of the Borough's strategic road network and key junctions that falls within the Green Belt, it will be necessary for the LPA to assess the suitability of a wider range of broad locations than that already identified in the Issues and Options document. This should have been undertaken at the earliest opportunity, prior to the identification of potential strategic employment locations, and in tandem with the Green Belt review, as evidently some locations (including those not already identified) will contribute less to the five purposes of the Green Belt.

In the absence of any relevant and up-to-date and evidence-base documents, it is considered that the LPA has neglected to identify all potential strategic employment locations within the Borough. In particular, land to the south of Junction 1 of the M69 – which, from a locational perspective, is the principal focus of these representations – has been excluded as a potential location for strategic employment growth, despite its unrivalled proximity to the M69 and the presence of existing, industrial and logistics premises nearby.

From both a strategic planning and commercial perspective, the location has been deemed suitable for employment uses by virtue of the development of Hinckley Park; an allocated, 33-hectare business park located within Hinckley & Bosworth Borough and delivered by local property company, IM Properties Plc. Hinckley Park is strategically located adjacent to the M69 and A5, and within 6.5 and 9.5 miles from the M6 and M1 respectively, meaning it benefits from direct accessibility to the Midlands supply chain and labour force. The site already accommodates the largest automated parcel depot in Europe, operated by DPD, and a 532,500 square feet building, occupied by Amazon. The final phase of development, comprising a speculative three-unit scheme, is near to completion and will be occupied by a local occupier, Geosynthetics, and renewable energy company, Octopus Energy, which will utilise the space for the storage and distribution of heat pumps and solar panels. The success of Hinckley Park (and in particular its speculative phase) not only signifies the strength of this location from the perspective of developers, investors and occupiers, but also the opportunity that exists for additional, complimentary development within the surrounding area within Rugby Borough.

From a spatial planning perspective, in order to understand the contribution of the site and its surrounding area to the five purposes of the Green Belt, it would ordinarily be necessary to refer to the findings of the most recent review of the Green Belt. However, the Coventry and Warwickshire Joint Green Belt Study, prepared in 2015, does not specifically assess the contribution of the Green Belt in this particular location, and rather focuses on the broad area between the towns of Nuneaton, Coventry, Hinckley and Lutterworth, which, by virtue of its size, is clearly of limited relevance to this context. Therefore, in the absence of an up-to-date Green Belt study, which considers land parcels that are within close proximity to major strategic road network junctions, it is appropriate at this stage for us to undertake a high-level appraisal of the site and its surrounding area in terms of its contribution to the Green Belt purposes.

Green Belt Purpose	Contribution	Rating
To check the unrestricted sprawl of large built-up areas	The site contains several buildings which compromise the openness of the Green Belt within their immediate vicinity. As a result of its form and location, the site also does not play a role in preventing ribbon development.	Low
To prevent neighbouring towns merging into one another	The site is not located within an existing settlement and its spatial relationship with the nearest settlements of Burbage and Hinkley is already bisected by the M69, A5 and intervening development.	Low
To assist in safeguarding the countryside from encroachment	The developed nature of the site and its surrounding area, particularly where it adjoins the M69 and A5, means that it shares limited characteristics of the countryside. There are also clear man-made features that contain development and prevent encroachment in the long-term namely; namely, the M69 and A5 which represent permanent defensible boundaries inhibiting the encroachment of the countryside to the north and east.	Low
To preserve the setting and special character of historic towns	The site is not partially or wholly within or adjacent to a Conservation Area. In addition, there is no intervisibility between the historic core of a historic town and the site.	Low
To assist in urban regeneration, by encouraging the recycling of derelict and other urban land	All Green Belt land makes a strategic contribution to urban regeneration by restricting the land available for development and encouraging developers to seek out and recycle derelict and/or urban sites.	High

The above appraisal follows a similar methodology to that undertaken as part of the Coventry and Warwickshire Joint Green Belt Study and considers the same questions posed in regard to each of the five purposes. The appraisal confirms that that the site and its surrounding area has a low contribution to four of the five Green Belt purposes, with the exception being 'to assist in urban regeneration' which is equally applied a high grading across all of the Green Belt by virtue of the strategic role such land has in incentivising development on brownfield land. Whilst it is recognised that to support the above appraisal, further assessment of the site and its surrounding would need to be undertaken from a landscape and visual impact perspective, it is clear that the developed nature of the site and its situation relative to the M69 and A5 means that it does not have a distinct functional role in protecting the Green Belt. This view was also shared by Officers as part of our early engagement as to the long-term development potential of the site.

4. How can we provide more space to allow existing businesses to expand?

The most effective means of providing space for business expansion is the allocation of a sufficient supply of employment land specifically for smaller-scale light industrial (Class E(g)(iii)) and industrial (Class B2) uses and smaller B8 uses. This is a key recommendation of the 2022 HEDNA and fundamentally reflects market appetite within the Borough, which nonetheless, should be gauged at the earliest opportunity through aforementioned stakeholder engagement sessions. It is important that allocations proposed through the Local Plan Review suit a range of business interests, particularly in terms of size, form and location, and with this in mind, it is encouraging to see acknowledgement of the shortage of incubator and 'grow on' space within the Borough. In our experience as both Planning Consultants and Industrial Agents, a great degree of certainty and confidence is afforded to developers, investors and occupiers of smaller-scale industrial premises when sites are allocated for such use. This not only encourages new investment within the Borough, but also allows existing businesses to find suitable premises to grow and innovate. As noted in response to question 2, it is essential that the need for a positive mix of Class E(g)(iii)/B2/B8) premises in terms of size, form and location is reflected within both the Local Plan Review and the emerging Economic Strategy for the Borough.

LSH's industry-leading market research into the Industrial and Logistics sector (a copy of which is enclosed with these representations) confirms that there is a growing opportunity across the country for 'mid box' (50,000 – 99,999 sq. ft.) premises. This is a segment of the market that has been relatively underserved by development, especially in the East Midlands where mid box supply is particularly tight. From a demand perspective, of the three size segments (mid box, large and extra-large), mid box was the most resilient when compared against 2021 which saw exceptional take up figures. The East Midlands was the best performing region in this regard, with take-up of over 2 million sq. ft. of mid box floorspace, which is only 5% short of 2021's record and 33% above trend. In terms of rents, for prime units of circa 50,000 sq. ft, the Rugby / Daventry market area saw the greatest rental growth in 2022, reaching 14%. Taking into account these figures and our understanding of the local market, there is evidently strong demand for mid box premises within Rugby Borough, which has been compounded by the overreliance on 'big box' units, at the expense of smaller premises which respond to local rather than national or international business interests. This further emphasises the need for the LPA to plan for a positive mix of Class E(g)(iii)/B2/B8) premises in terms of size, form and location.

5. We are minded to allocate sites specifically for industrial (B2) and light industrial (E(g)(iii)) uses. Do you support this and if so, where?

As is emphasised throughout these representations, it is imperative that a sufficient supply of employment land is allocated specifically for smaller-scale light industrial (Class E(g)(iii)) and industrial (Class B2) uses. In doing so, there are a number of key locational factors to consider, which include:

- Road accessibility – sites should be allocated in locations where they can be accessed from the strategic road network which has capacity (or the potential to improve capacity) to support the proposed development.

- Power supply – sites should be allocated in locations where there is potential to access sufficient power. This is an important consideration given the potential for increased automation, electrification of vehicle fleets, and systems for chilled goods. However, it should not be neglected that power could be generated through energy efficiency buildings with features such as solar panels and heat humps. A notable precedent has been achieved at Hinckley Park which has been built to a high specification, targeting EPC A and BREEAM 'Excellent', as well as being delivered as Net Zero in contribution and operation.

- Labour availability – sites should be allocated in locations which can easily draw upon a wide labour pool. This includes locations that are well connected to urban areas. Regard should be given to the accessibility of locations by public transport, particularly from deprived areas and those with available labour market capacity, and the ability of employment nodes with an emerging density of employment uses to sustain regular public transport services.

- Neighbouring activities – sites should not be allocated in locations that are in close proximity to residential areas (or accessed through them) as it may be necessary to support 24/7 operations. Similarly, allocations should be located away from incompatible land uses and in areas capable of accommodating high bay warehousing without unacceptable impacts on residential amenity and the landscape.

With this set of considerations in mind, it is recommended that a geographical spread of commercially attractive sites is identified and brought forward for light industrial and industrial use. The strategy for employment land within the Borough will need to cater for the requirements of occupiers with different locational requirements and avoid issues of overconcentration – particularly within large and established employment locations – which can create localised issues of labour market competition between businesses. Given the importance of accessibility to the strategic road network, and the extent to which this located within the Borough's Green Belt, it will be necessary to consider the release of Green Belt to provide an adequate supply of land for light industrial and industrial uses.

It is considered on this basis that land to the south of Junction 1 of the M69 is a suitable location for the allocation of sites for light industrial and industrial use. As noted above, the Issues and Options document neglects the location as a potential area for strategic employment growth, despite its unrivalled proximity to the M69 and the presence of existing industrial and logistics premises. It is recommended that the location is considered for the full range of employment uses, with particular emphasis given the potential of the area to accommodate small to medium size unit premises. It is important to recognise that the site to which these representations relate comprises previously developed land within the Green Belt, which benefits from an existing access junction, power supply and landscape buffers. As such, it is a credible location for further consideration in the plan-making process.

6. Are there exceptional circumstances that mean we should amend Green Belt boundaries to meet the need for employment land?

The Issues and Options consultation documents identifies 8 potential strategic employment locations, of which 5 are located within the Borough's Green Belt. It is clearly acknowledged at paragraph 3.42 that the LPA will consider alterations to the Green Belt where there are exceptional circumstances to do so, and it has been clearly emphasised throughout these representations that there is an acknowledged dependency on Green Belt release to provide an adequate and proportionate supply of strategic and non-strategic employment land across the Plan period. This is primarily due to the need for both strategic and non-strategic employment land to come forward in close proximity to the strategic road network. Given the proportion of the Borough's strategic road network and key junctions that falls within the Green Belt, it will most certainly be necessary to amend Green Belt boundaries to meet the need for employment land, which itself constitutes the exceptional circumstances for doing so. Most importantly, however, the LPA will need to assess the suitability of a wider range of broad locations than that already identified in the Issues and Options document. This should have been undertaken at the earliest opportunity, prior to the identification of potential strategic employment locations, and in tandem with the Green Belt review, as evidently some locations (including those not already identified) will contribute less to the purposes of the Green Belt.

Conclusion

It is recommended that the LPA give further consideration to the potential of land to the south of Junction 1 of the M69 as a suitable location for the allocation of sites for employment use. In particular, regard should be given to the suitability of the location to accommodate small to medium size unit premises, for light industrial (Class E(g)(iii)) and industrial (Class B2) uses. The Issues and Options document neglects the location as a potential area for strategic employment growth, despite its unrivalled proximity to the M69, the presence of existing industrial and logistics premises, and its relatively limited contribution to the Green Belt purposes. As such, it should be taken forward as a credible location for further consideration in the plan-making and allocation process.

Should you find that it would be useful to discuss any of the matters set out above in relation to the site, we would be happy to do so at your convenience.

Yours faithfully,

[redacted]

[redacted]

BACK INTO BALANCE

ILM2023

INDUSTRIAL & LOGISTICS MARKET

WELCOME

While 2022 did not come close to the highs of 2021, the UK's industrial and logistics occupier market still performed ahead of expectations, especially so considering the economic trials and tribulations that beset the year. And, even if the boom is over, there is plenty to be positive about as we traverse 2023.

Granted, in response to the weakening economic environment, take-up did slow appreciably in the latter part of 2022. Positively, however, the fog of uncertainty is starting to clear, and this should translate into improving activity as 2023 progresses. However, the urgency of demand that characterised the boom will give way to a greater focus on maximising the efficiency and resilience of occupiers' supply chains.

Meanwhile, green shoots are appearing in the investment and funding landscape. Despite the most severe pricing correction in history befalling the sector, conditions have already stabilised thanks to improving certainty over the direction of travel for interest rates. Backed by a global weight of money, this improving sentiment is guided by a real sense that this sector still has the necessary attributes to outperform.

While the past two years have seen an avalanche of speculative development, supply levels have only partially recovered thanks to such impressive take-up of high quality space. The market is moving back into balance, and supply should improve further in 2023, but not to a troubling degree given modest expectations for new development starts.

Despite the increasing costs, occupiers' increasing focus on ESG and energy efficiency is driving activity towards the quality end of the market. And, while growth is easing back, this will be key to maintaining upward pressure on rents in 2023, albeit more selectively and where pockets of untapped opportunity exist.

I hope you enjoy our report. If you require any advice or assistance, our team of experts will be delighted to help.

SUMMARY AND OUTLOOK

Despite more challenging conditions for occupiers, the industrial and logistics sector will continue to reap the benefits of positive underlying fundamentals in 2023. And, while the boom may be over, the sector still has what it takes to outperform.

QUALITY COUNTS

Considering the economic and financial travails of 2022, UK-wide take-up hit an impressive 60.5m sq ft for the year, just edging out 2020 to be the second strongest year on record behind 2021's colossal performance. However, as the year progressed, it became clear the pandemic-driven clamour for space had run its course, with take-up in the final quarter of 2022 sliding back into line with pre-2020 levels.

The scaling back of ecommerce activity was the main reason for the downward shift in take-up; Amazon was behind only 1.5m sq ft of transactions in 2022 compared with 13m sq ft in 2021. However, strong momentum was sustained in other sectors, with third party logistics keeping its foot on the pedal and low carbon-related industries behind some major manufacturing commitments.

While 2021 boasted almost every conceivable record, a key characteristic of 2022 was the focus of demand on quality space, a trend that is expected to continue over 2023. Underlining occupiers' increasingly discerning attitude around quality, ESG credentials and energy efficiency, a record 45% share of 2022's take-up involved new spec or refurbished units. The ready absorption of new build space has vindicated developer decisions to spec-build at such a grand scale over the past two years.

BACK TO EARTH

The expansion-driven frenzy spurred by the pandemic may be over but there are nonetheless grounds for optimism for the year ahead. The looming recession is now looking to be much shallower and less protracted than feared, while improving certainty should instill greater confidence among occupiers to make property decisions despite the increased costs.

While the growth of ecommerce will continue to underpin demand, the focus has shifted from raw expansion to optimisation of supply chains. Demand will reflect a growing emphasis on improving both supply chain efficiencies and resilience. Brexit and the experience of the pandemic are fuelling increasing moves towards nearshoring / onshoring of manufacturing and distribution hubs within the UK and this is expected to ramp up in 2023.

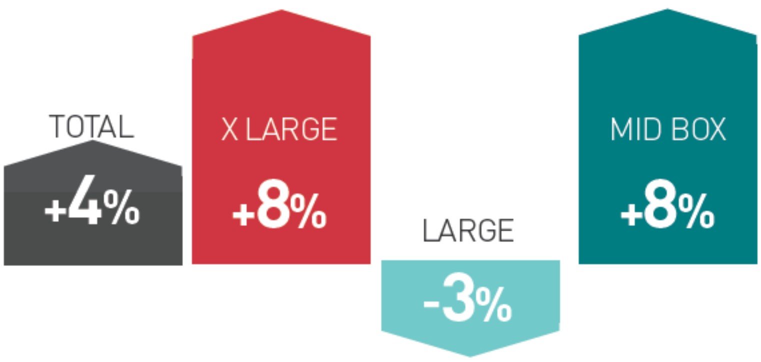
Active demand is admittedly thinner compared with the start of last year but stands at a healthy level when placed into a long-term context. After a relatively quiet Q1, activity is expected to build thereafter and culminate in circa 48m sq ft of take-up for 2023 as a whole. Although this does not come close with the levels of recent years, it is nonetheless appreciably higher than the pre-pandemic average.

BACK INTO BALANCE

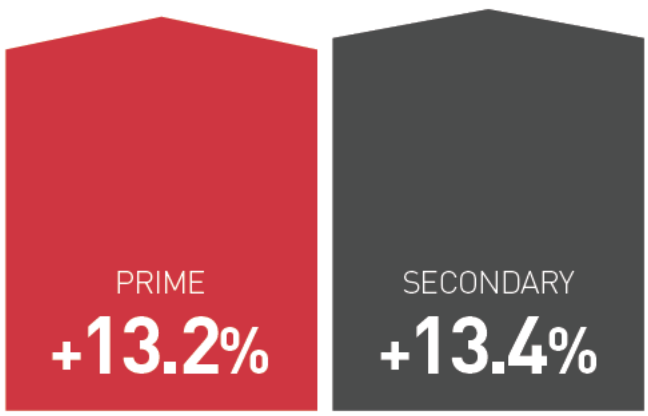
Despite the unravelling of financial market conditions last year, speculative development soared to a new high of 23.6m sq ft at the end of 2022. However, supply only partially recovered from 2021's low, with the UK availability rate standing at only 3.6% and equivalent to only 1.1 years of average annual take-up. However, supply varies considerably between size-segments and regions, with the large segment seeing a notable 58% uptick in grade A supply over the year.

The market is expected to continue to move back into balance in 2023, but little more than that. While build costs appear to have stabilised, the severe outward movement in yields seen in the second half of 2023 has

UK 2022 TAKE-UP VS FIVE-YEAR AVERAGE



AVERAGE UK RENTAL GROWTH 2022



challenged scheme viability, particularly for developers that purchased land towards the top of the market. Consequently, speculative development has almost certainly now peaked, with an estimated 13m sq of new speculative development starts anticipated in 2023, half 2022's level.

Less certain is how much secondhand space will come onto the market in 2023, both from landlords and an number of occupiers that overextended themselves in the pandemic race for space. In today's less expansive market, occupiers' focus on upgrading to higher quality space may signal the beginnings of a steady rise in secondhand supply over the coming years. However, even allowing for this, the UK availability rate is forecast to only nudge up to circa 4% by the end of 2023, which is still very tight in its historic context.

MORE GROWTH, BUT PATCHIER

Rental growth is now starting to ease down after two years of unprecedented expansion. While prime headline rents increased by 13% on average across the UK markets in 2022, growth was a relatively modest 4% in the second half of the year. This slowing is partly a function of more choice stemming from development and also, frankly, the declining ability for some occupiers to pay ever more for space without being forced to relocate or drive efficiencies elsewhere in the supply chain.

Nonetheless, despite a sharp rise to operating costs, economic headwinds and the prospect of significantly higher rates bills in parts of the UK, overall levels of supply remain broadly conducive for continuing rental growth into both 2023 and beyond. Across the UK, prime rental growth is forecast to run at circa 4% in 2023, a downwards step change from recent levels but nonetheless comparing well with other property sectors in the current climate.

However, there is likely to be significant variation between markets and size-bands. While rents appear to have topped out for now in some of the prime locations, there remain pockets of as yet untapped growth in many locations around the UK, some of which may be able to achieve growth in the double digits. Areas of potential include once secondary locations that now offer relative value and / or benefit from transport infrastructure improvements and the XL segment more generally.

INVESTMENT MARKET STABILISING

The very strong run for the industrial and logistics investment market ended abruptly during 2022. The sector understandably bore the brunt of the changing financial conditions, with extremely low prevailing yields becoming instantly unsustainable and softening by around 150bps in the second half of the year. Yet, shocking as it was, improving clarity over the direction of travel for interest rates and the economy is leading to a growing sense that the correction has completed, certainly with regard to prime assets.

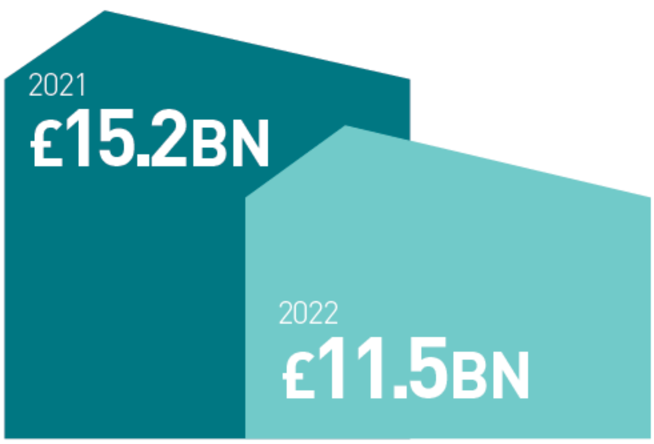
Moreover, ongoing positive fundamentals in the occupier market should restore industrial as the UK's lead-performing sector over the medium term. While industrial's colossal outperformance of previous years will not be repeated, better rental growth prospects will be key to driving enhanced returns relative to other sectors. That said, the performance of the secondary market is no longer expected to move in lockstep with prime, with the pricing of such assets having to reflect the expenditure required to bring them to the standard occupiers increasingly expect.

Industrial land values felt the full force of the recent correction. While transactional evidence is sporadic at best, sentiment indicates that land values fell by 37% on average during the second half of 2022. However, with a strong weight of money continuing to seek out opportunities, anecdotal evidence is increasingly suggesting that stability is returning to the land market, and a degree of recovery in values may even be forthcoming over the course of 2023.

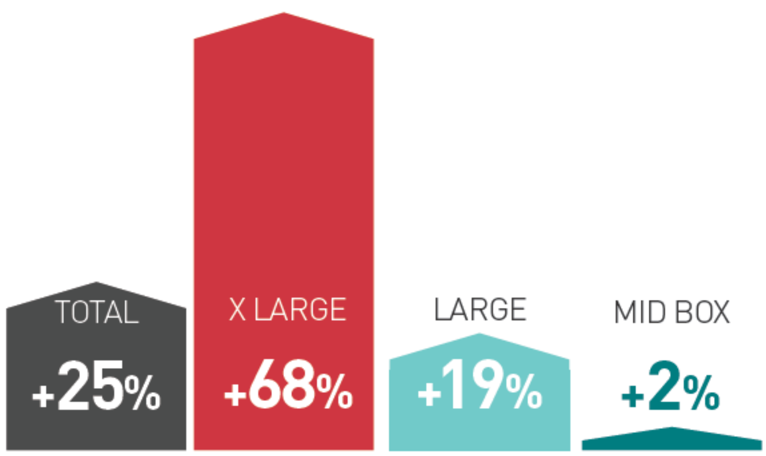
STILL A BRIGHT FUTURE

While the pandemic-inspired race for space has run its course, logistics demand will continue to benefit from structural change through strategic adjustments to supply chains and an increased focus on ESG. Logistics property has a secure role to play in supporting economic activity, and stands in contrast with other property sectors, where levels of supply appear to be increasingly out of step with the realities of post-pandemic levels of demand.

INVESTMENT VOLUME



UK CHANGE IN SUPPLY, Y-ON-Y



Source for all data unless stated: LSH Research

ECONOMIC BACKDROP

FEELING THE AFTERSHOCKS

The aftershocks of 2022's surging inflation, interest rate hikes and financial market volatility will be felt in 2023, alongside the further unwinding of pandemic and Brexit impacts. While the logistics sector is relatively well insulated, it faces significant cost pressures.

NO RECESSION YET

The UK economy proved more robust than many forecasters had expected in 2022, in the face of energy price-driven inflation and rising interest rates. A recession was avoided, albeit by the narrowest of margins, as GDP was unchanged in Q4 after a 0.2% contraction in Q3.

There may still be a recession in 2023 but, if there is, it is likely to be far milder than previously feared and possibly restricted to the first half of the year. A raft of more positive growth signals have been seen since the start of 2023, and Purchasing Managers' Index (PMI) surveys point tentatively to a recovery in business sentiment and activity. This has even led some forecasters, such as JPMorgan, to break ranks with the consensus and say that a UK recession is no longer likely this year.

IMPROVING INFLATION OUTLOOK

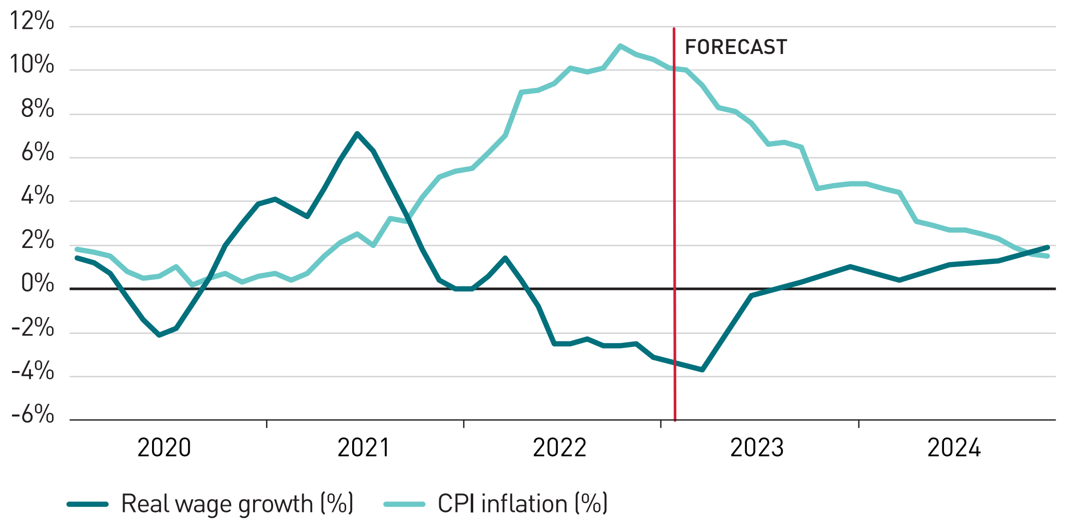
A key factor behind improved growth forecasts is a more benign outlook for inflation and interest rates. There is growing optimism that inflation is already past its peak, while the Bank of England base rate may be at or close to the high point of the current tightening cycle.

This reflects a waning of global price pressures, with wholesale energy prices falling significantly since late 2022 and supply chain disruption easing. Last October's CPI rate of 11.1% could prove to be the apex, and most forecasters see inflation coming down to 4-5% by the year-end.

COSTS STILL A PRESSURE

While inflation is moving in the right direction, higher prices will still put households under pressure this year. Real disposable incomes are set to continue falling, at least in the first half

INFLATION AND REAL WAGE GROWTH FORECASTS (%)



Source: Office for National Statistics/Capital Economics

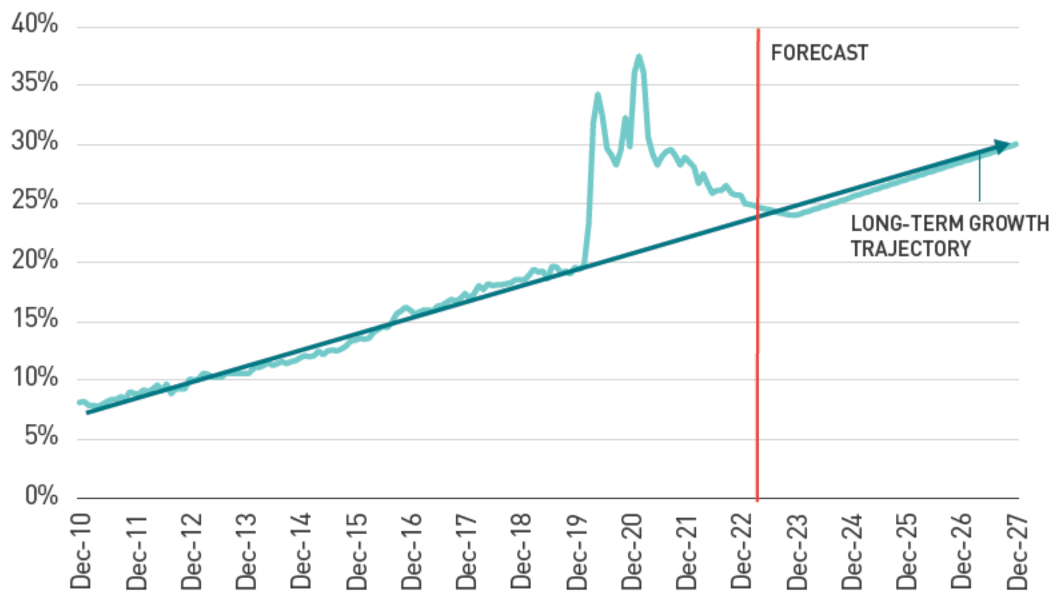
TRANSPORT & STORAGE JOB VACANCIES

Source: Office for National Statistics

ECONOMIC OUTPUT BY SECTOR (QUARTERLY INDEX, 2009=100

Source: Office for National Statistics

ONLINE SALES AS A PERCENTAGE OF TOTAL RETAIL SALES (%)



Source: Office for National Statistics/ LSH Research

of 2023, which will restrict consumer spending. Households may not see the benefit of lower energy prices until the second half of the year, with July expected to be the first month when the Ofgem energy price cap falls below the government's Energy Price Guarantee.

Businesses in the logistics sector will likewise remain exposed to a cocktail of cost pressures. Alongside higher fuel and energy costs, firms are also having to contend with increased rental, labour, material and shipping expenses. Locations that saw strong industrial rental growth up to April 2021 will see a double impact, with the latest business rates revaluation giving rise to significant hikes to occupiers' rating bills in April.

LABOUR MARKET CHALLENGES

Logistics firms will also have to negotiate a tight employment market, albeit labour pressures have alleviated somewhat over the last year. According to Office for National Statistics data, the number of job vacancies in the transport & storage sector has fallen by more than a quarter since peaking in early 2022. Meanwhile, the much-publicised shortage of HGV drivers has eased, with record numbers of new drivers taking vocational tests last year.

Nonetheless, difficulties filling logistics roles have fuelled continued wage increases. Logistics UK says that warehouse worker and forklift driver salaries increased by 7.4% and 5.2% respectively in the year to Q3 2022. Logistics firms report that they still face obstacles recruiting staff for many key positions, with further pay increases likely to be needed to remain competitive and retain staff.

ROBUST LOGISTICS SECTOR

Amid recent challenges, key logistics-related sectors have proven to be relatively resilient. In Q4 2022, the warehousing and postal & courier sectors were both around 10% bigger than their pre-pandemic levels, while the overall UK economy was still slightly smaller. However, 2022 was a mixed year, with warehousing output remaining broadly flat while postal & courier activities inevitably lost some of the boost that came during lockdowns.

Experian forecasts for the wider transport & storage sector indicate a comparatively robust outlook. The sector is expected to outperform the overall economy in 2023-24, albeit a mild downturn in output could still been seen in H1 this year.

ONLINE RETAIL TO RISE AGAIN

The recent resilience of the logistics sector has been supported by the growth of ecommerce, which has driven record levels of logistics property demand over the last few years. However, online retail activity has unsurprisingly cooled from the highs seen during lockdowns, with internet sales settling at 25.0% of all retail sales in January 2023, down from a peak of 37.5% in February 2021.

Nonetheless, this still represents a step-change up from pre-pandemic levels and a continuation of a longer-term growth trajectory. Online retail is expected to resume its growth after the current period of consolidation and rebalancing, as there remain pockets of untapped potential and younger tech-savvy consumers will continue to enter the market. GlobalData forecasts that the UK online retail market will grow by around 5% p.a. from 2024, with online growth once again outpacing physical retail.

BREXIT STILL PLAYING OUT

Other ongoing structural changes, including some stemming from Brexit, will continue to shape logistics market activity. The agreement in principle of a new EU-UK deal on Northern Ireland should help simplify firms' trading arrangements, while also stimulating logistics business opportunities within the province over the longer term.

The post-Brexit creation of UK freeports could be an additional growing influence on logistics firms' location decisions. Meanwhile, the reshoring or onshoring of manufacturing and warehousing activity will remain a key trend, driven not just by Brexit but also by global supply chain vulnerabilities highlighted by the pandemic.

STRONG UNDER PRESSURE

Further economic challenges will undoubtedly be ahead in 2023, but there are grounds for optimism that a more stable backdrop will emerge following the volatility of recent years. Nonetheless, cost pressures will remain a major concern for households and businesses, even amid the expected falls in inflation.

Despite the online retail market temporarily entering a more consolidatory phase in the wake of rapid post-pandemic growth, the industrial and logistics sector remains supported by strong longer-term structural drivers. These should put it in a relatively healthy position to weather the challenges ahead.

Source for all data unless stated: LSH Research

UK OCCUPIER MARKET

OCCUPIER MARKET OVERVIEW

While the pandemic-fuelled race for space ended during 2022, the year was nonetheless the second strongest on record for take-up. And, with the market moving to a better balance of supply and demand, rental growth is easing down from the unprecedented levels of the recent past.

QUIET FINISH TO A STRONG YEAR

2021's record take-up was always going to be tough to match. At 60.5m sq ft, UK-wide take-up in 2022 was the second strongest annual total on record but 22% below 2021's huge high. The post-pandemic surge in demand appeared to have run it course by the latter stages of the year - Q4 take-up of 11.9m sq ft was the lowest since Q1 2020, despite being boosted by a flurry of colossal manufacturing deals.

Of the three size-bands, the large segment (i.e. 100,000 sq ft to 250,000 sq ft) saw the clearest drop-off in activity, with take-up in 2022 down 28% on 2021's record level and 3% below the five-year annual average. The best performing segment relative to the previous year was the smaller mid box category, where take-up was only 15% down on 2021 and 6% above the annual trend.

QUALITY FIRST

Even if demand has cooled, developers remain vindicated by their decisions to press ahead with speculative schemes. While 16.3m sq ft of design and build take-up in 2022 was broadly in line with the five-year annual average, take-up of up-and-built grade A space amounted to a considerable 26.9m sq ft in 2022, down only 10% from 2021's high and 28% above the annual trend.

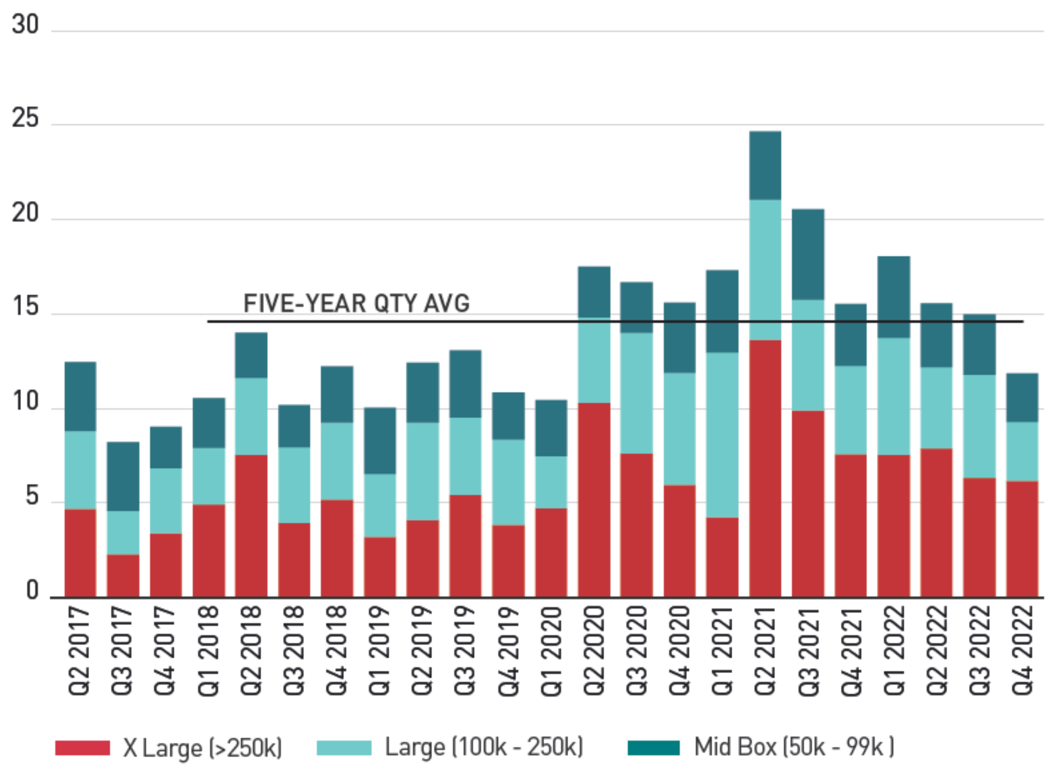
On the flipside, take-up of secondhand space fell to a record low of just 17m sq ft in 2022, 41% down on 2021's level. While this largely reflects an increasing lack of secondary stock on the market to choose from, occupiers' increasing emphasis on demonstrating ESG credentials and energy efficiency is playing a growing role in driving appetite for high quality space.

CHANGING OF THE GUARD

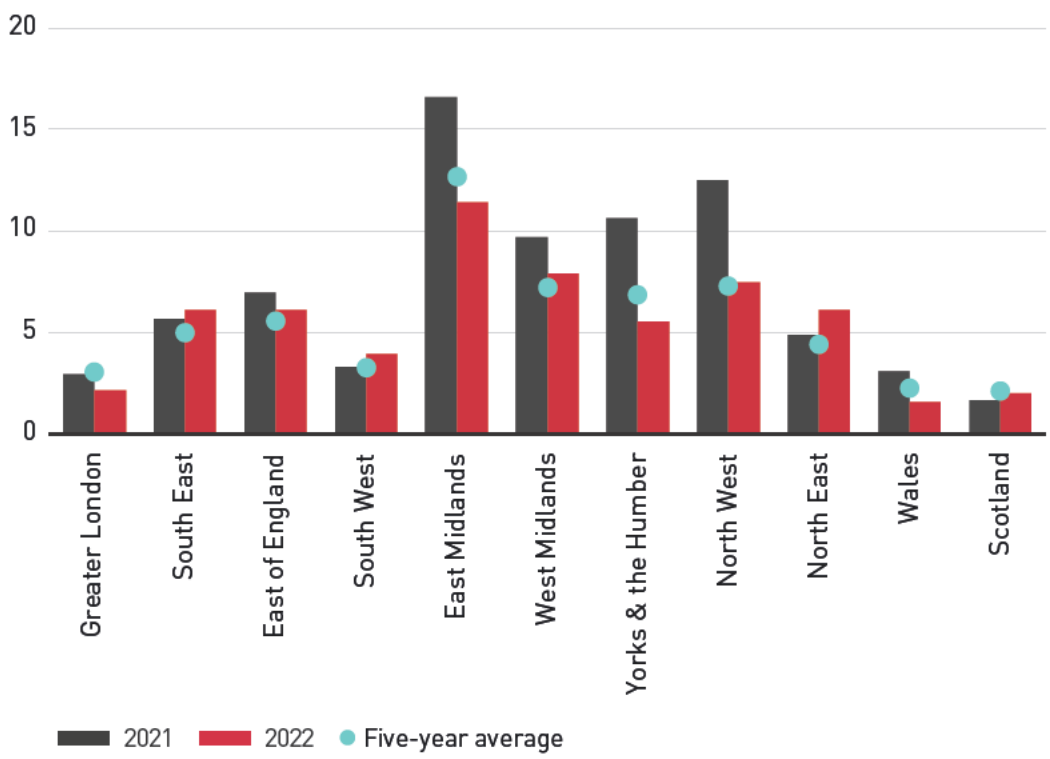
2022 brought about a marked transitioning in the demand profile. Having dominated in the wake of the pandemic, activity from the retail and wholesale sector fell away, most especially from the pure-play e-tailers. Nowhere is this better illustrated than Amazon, which, having blazed a trail in 2021 with 12.5m sq ft of take-up, was behind only 1.5m sq ft of activity in 2022.

Meanwhile, strong activity elsewhere was key to filling the void left by the retailers. A growing emphasis on cost management and supply chain efficiencies was a boon for third party logistics providers, whose share of total

UK TAKE-UP (M SQ FT)



UK TAKE-UP BY REGION (M SQ FT)



Source for all data unless stated: LSH Research

take-up climbed from 19% in 2021 to 26% in 2022. Other, more niche, space users also contributed, including data centre providers and TV/film producers.

Having long played second fiddle to distributors, the manufacturing sector also made waves in 2022. The turnaround in demand is linked to both an increased emphasis of securing production into the supply chain alongside the wider growth of investment into low carbon technologies. The North East region alone saw a flurry of huge commitments spanning battery production, EV manufacturing and wind turbine production in 2022.

MIXED IN THE REGIONS

Amid a strong year of take-up overall in 2022, the picture was mixed at the regional level. Six of the UK's 11 regions recorded take-up ahead of their respective five-year annual averages in 2022, namely the East (+13%), North West (+5%), South West (+27%), South East (+26%) and the North East (+45%), the latter two of which boasted record annual take-up on the back of major deals. Meanwhile, Greater London and Wales were the UK's notable underperformers in 2022, with annual take-up standing 25% and 24% below their respective annual averages.

STILL SPEC-TACULAR

Despite viability being compromised by last year's seismic shift in financial conditions, the quantum of spec development underway across the UK climbed to a fresh high in 2022. Another burst of new development starts in Q4 pushed UK-wide speculative development under construction to a colossal 23.6m sq ft by the end of 2022, up 16% on the 2021's previous high and comprising 150 separate units.

Three UK regions provide the key focus of speculative development activity, with the East Midlands (20%), Yorkshire & The Humber (20%) and the North West (14%) home to over half of the total. While the emphasis of development is comparable with 12 months ago, the increase was fuelled by a 33% jump in the development of units in the large segment (i.e. 100,000 to 250,000 sq ft).

SUPPLY STARTS TO RECOVER

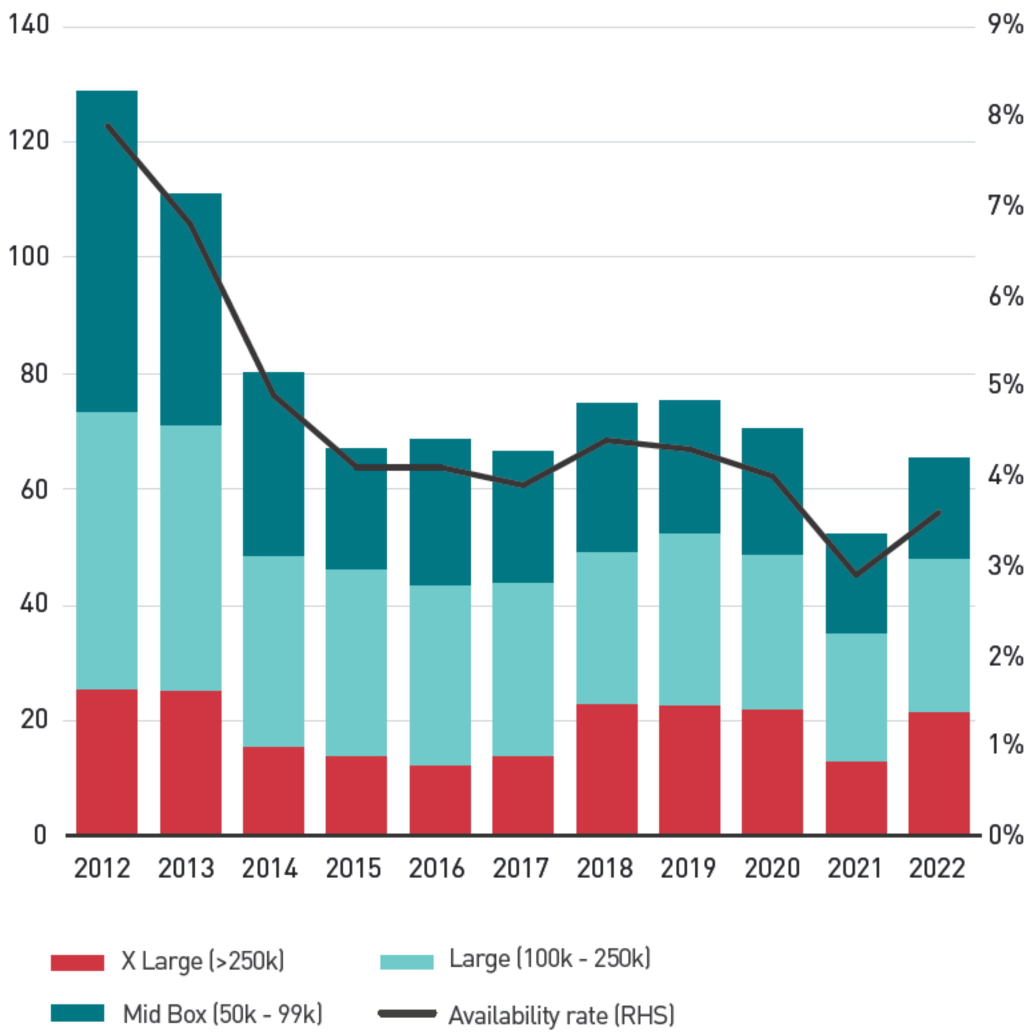
Alongside a cooling in the strength of demand, the concerted development response of the past 24 months is starting to feed through into supply levels. UK-wide supply rebounded by 26% from 2021's record low to stand at 65.9m sq ft at the end of 2022. However, supply remains extremely tight, equivalent to only 1.1 years of average annual take-up across all segments combined and an availability rate of only 3.5%.

The underlying nature of supply has also shifted. The XL segment saw the strongest rebound in supply, rising by 72% year-on-year and moving back to its pre-pandemic level, while mid box supply showed the most limited movement, increasing by 2% year-on-year. Notably, secondhand space continues to ebb away and, given strong development activity of late, now accounts for only one third of total UK supply. The exception, however, is the XL segment, where secondhand space more than doubled year-on-year as a number of units came back to the market.

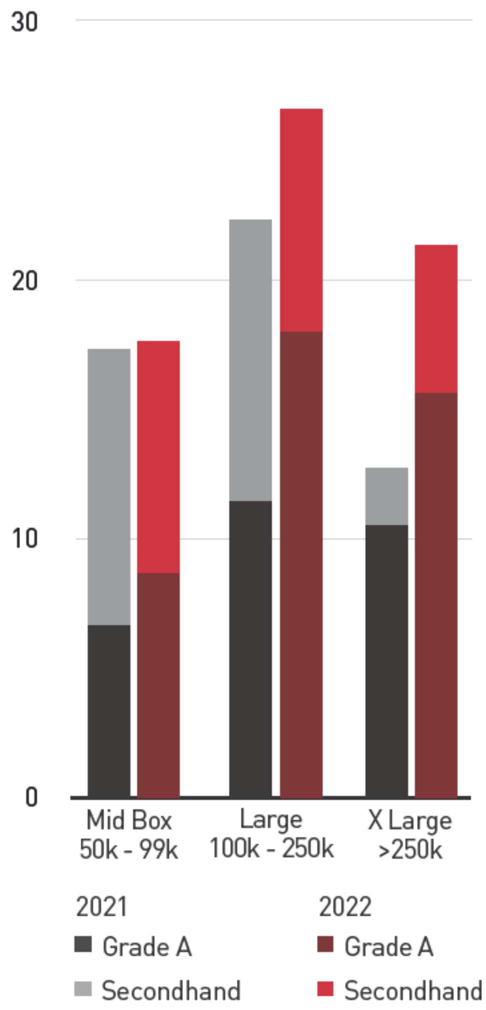
ACTIVE DEVELOPMENTS KEY TO SUPPLY

Amid the rise in overall UK supply, the geographically uneven nature of the development response has resulted in considerable variation between regions. The East Midlands and

UK AVAILABILITY BY SIZE-BAND (M SQ FT)



UK AVAILABILITY BY SIZE AND GRADE (M SQ FT)



Yorkshire & The Humber saw especially sharp rebounds in supply, rising 71% and 72% year-on-year respectively, while the West Midlands and South West were the only two UK regions to see supply tighten during 2022, albeit by a relatively small degree.

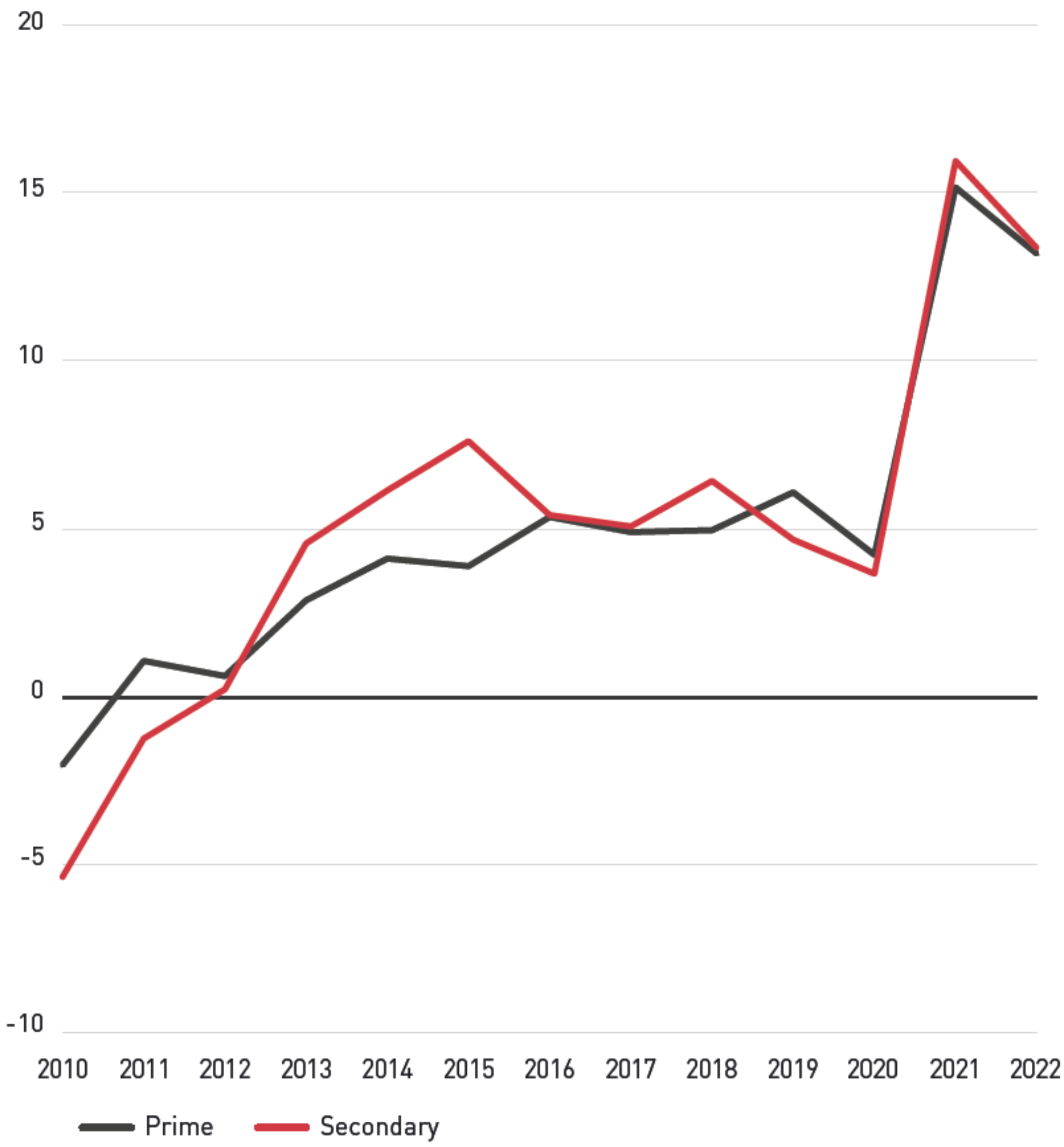
A large proportion of current supply is not even built yet. In Yorkshire & The Humber, a remarkable 50% of supply is under construction, followed by the South East region, where 46% of supply is yet to complete. In spite of this, current supply levels remain very tight even in the hottest of regions for development. For example, the East Midlands and East of England have both benefitted from substantial levels of spec development yet remain among the tightest regions, with supply equivalent to less than a year of average take-up.

RENTAL GROWTH STARTING TO EASE

Considerable upward pressure on rents continued into 2022, albeit the pace of growth eased off in the second half of the year. Across the UK's 60 key markets, average prime rents for 50,000 sq ft units increased by 13% year-on-year in Q4 2022, down from a peak of 17% in Q4 2021. However, in the wake of growing economic headwinds, the strong growth of 2022 was highly front-loaded, with average growth amounting to 4% in H2, down from 9% in H1.

With annual growth of 17% and 16% respectively, Greater London and Yorkshire & The Humber recorded the strongest growth on average at the regional level during 2022. Within these regions, Barking and Dagenham (up 24%), Leeds (up 21%) and Sheffield (up 21%) exhibited the most extreme growth of the key 60 UK markets. Secondary rental growth was strongest in Greater London and the East of England, up 22% and 16% respectively.

AVERAGE UK RENTAL GROWTH (%)



REGIONAL AVERAGE RENTAL GROWTH IN 2022 (%), UNITS 50,000 SQ FT

Source for all data unless stated: LSH Research

X LARGE

BIGGER THE BETTER

While the post-pandemic boom for ecommerce has receded, the XL arena is expected to show the greatest degree of resilience of the three segments. Moves to consolidate operations into larger units, increased appetite for onshoring and tight supply will all play their part.

Amazon clearly moved onto the back foot in 2022, and this alone can explain 2022's drop off in XL take-up from 2021's record. However, while the ecommerce-driven boom has subsided, other forces are helping to drive demand. Manufacturers are making big moves in the design and build space, while many deals are being driven by a need to de-risk or improve supply chain efficiencies, reflected in the growth of both onshoring-driven demand and 3PL take-up respectively.

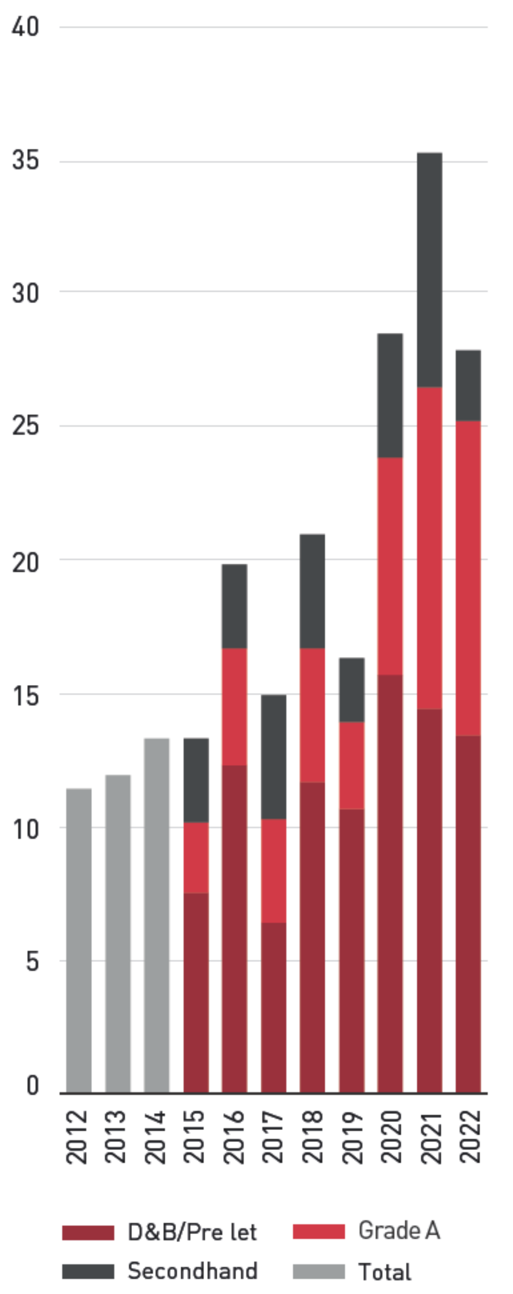
While a number of XL large units are coming back to the market, these are likely to be few and far between. Indeed, supply and void periods should remain low, particularly as a steady stream of parcel deliverers and major retail brands are seeking to relocate and/or upsize into fewer albeit much larger units in order to maximise cost efficiencies and meet their ESG responsibilities.

Despite benefitting from a wave of speculative development, total UK-wide XL supply is very tight compared with the smaller segments, equivalent to well under one year of average take-up. Moreover, current difficulties in the funding market will quell speculative development, with only 16 spec construction starts in the XL segment anticipated over the year ahead, a sharp drop off from the previous couple of years.

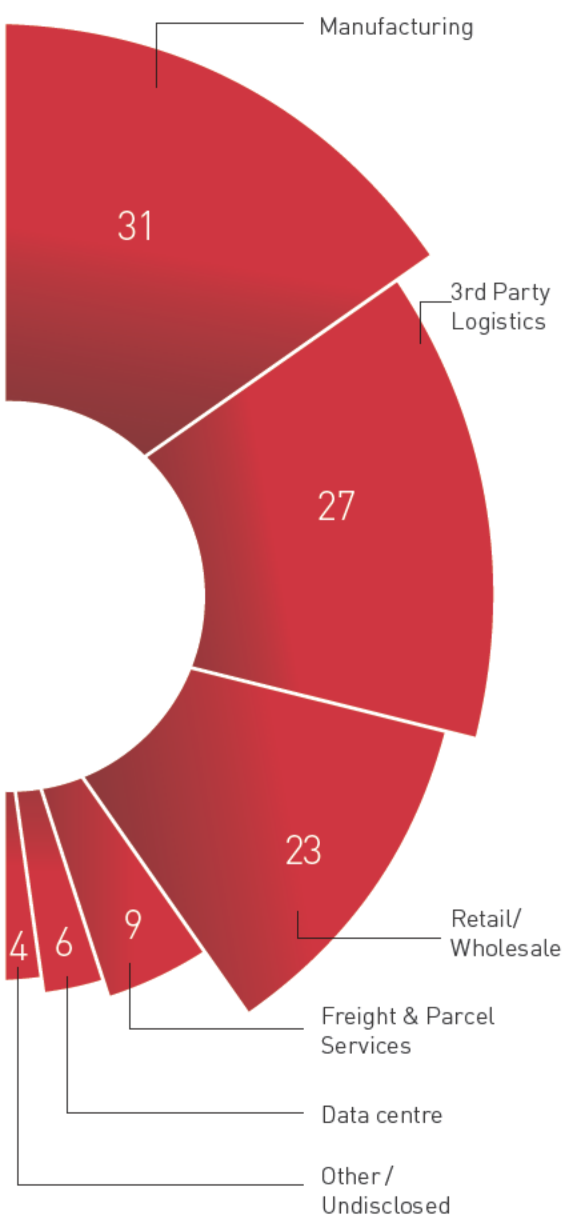
At the same time, a greater share of XL unit activity is likely to be satisfied via build to suit agreements, just as it was in the pre-boom years. With greater aversion to speculative development, established occupiers will be able to use their covenant positions to enable bespoke solutions and secure better terms while minimising the risks for developers and lenders.

Even though urgency of demand in the XL segment has calmed down appreciably compared with 18 months ago, ongoing tight supply in many parts of the UK will remain

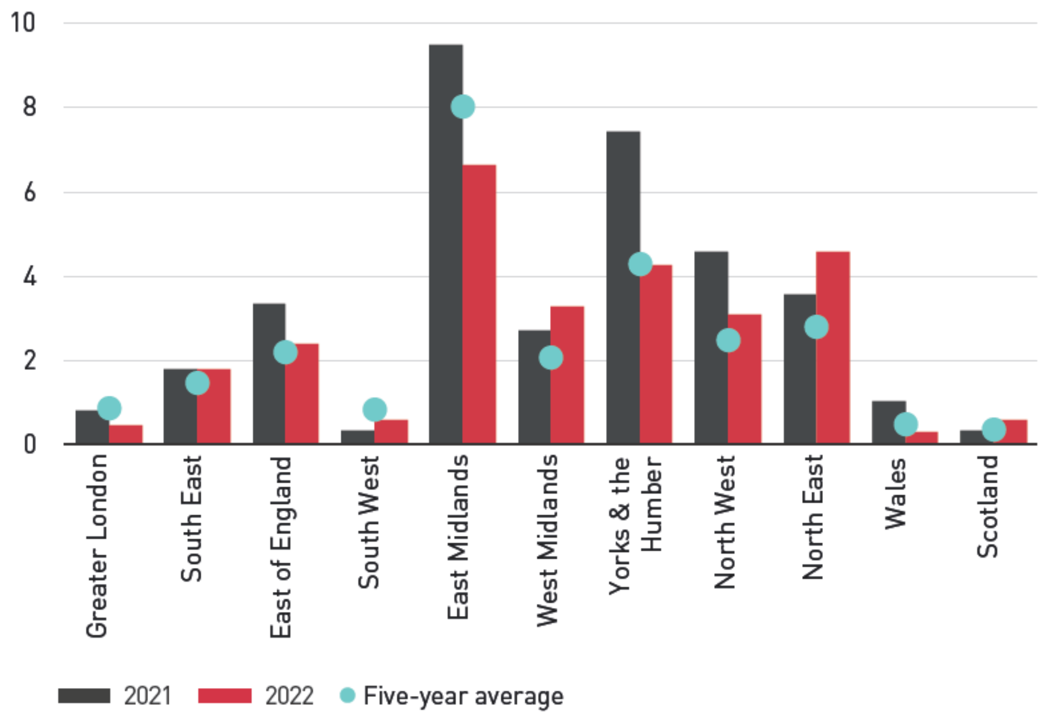
TAKE-UP BY GRADE (M SQ FT)



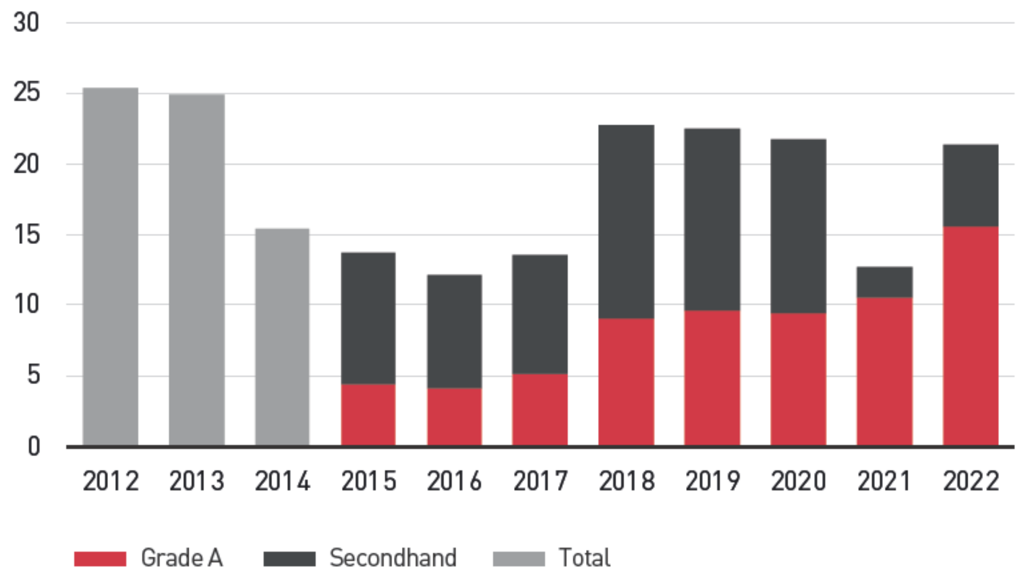
TAKE-UP BY OCCUPIER TYPE (%)



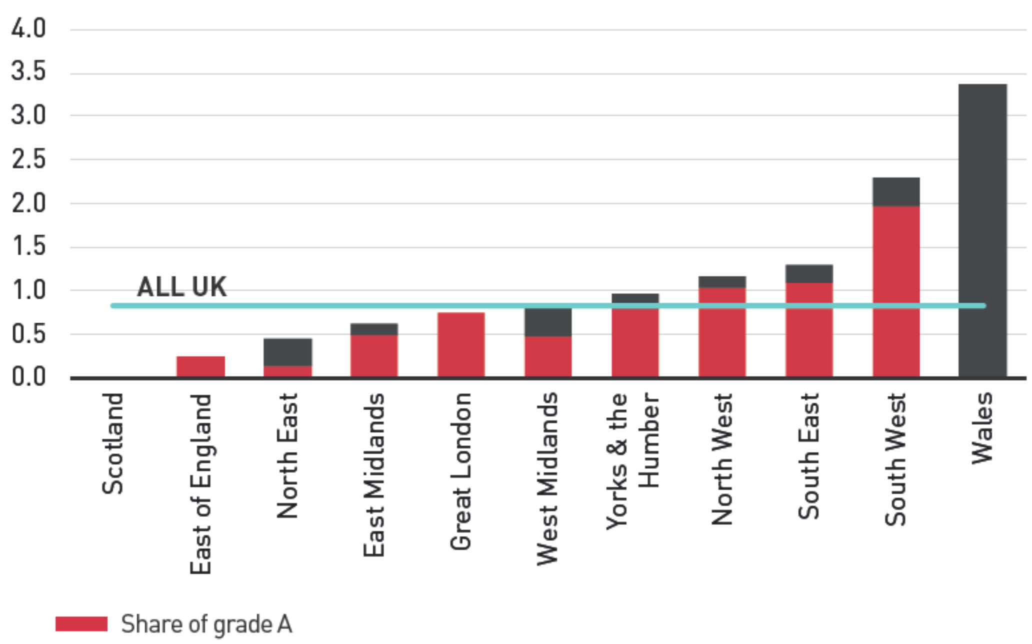
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



broadly conducive for rental growth in the XL segment over the year ahead.

DEMAND

UK-wide XL segment take-up hit 27.9m sq ft in 2022, down 21% on 2021's record total but 8% above the five-year annual average. While build to suit commitments took the lion's share of XL take-up in typical fashion, take-up of new spec and refurbished units was only 1% below 2021's record.

Retail and wholesale lost its crown as the most active sector in the XL segment, with its share of take-up slumping from 52% in 2021 to only 23% in 2022. Amazon was behind only three XL deals in 2022 compared with nine in 2021, while activity among other retailers was also quiet, behind only eight XL deals compared with 22 in 2021.

Despite Amazon's limited impact, 2022 saw six transactions in excess of 1m sq ft, the highest annual number of deals of this magnitude since 2018. Manufacturing featured prominently at the very largest end of the market in 2022, involved in six of the UK's ten biggest deals for the year and driving a leading share of XL segment activity.

2022's very largest deals played a key role in determining strong annual take-up in a number of UK regions. This was especially true of the North East, where four major manufacturing commitments spurred record annual take-up in the region. That said, while the logistics heartland of the East Midlands recorded its lowest level of XL activity since 2017, it still commanded the UK's leading share of take-up in the segment.

SUPPLY

UK-wide supply in the XL segment rebounded by a considerable 68% year-on-year from 2021's record low. Despite seeing the sharpest increase of the three segments, it remains the tightest supplied, equivalent to only 0.8 years of average annual take-up.

The rebound was felt across both grade A and secondhand space, increasing 48% and 167% respectively during 2022. While secondhand XL stands 39% below the five-year average, new spec and refurbished supply soared to a new record high of 15.6m sq ft. This reflects strong ongoing levels of speculative development, with 9.9m sq ft under construction at the end of 2022, up 6% on 2021's previous peak.

Yorkshire & The Humber has narrowly overtaken the East Midlands as the most active region for XL development, home to seven of the UK's 23 speculative schemes in the XL segment. Notably, the North East has seen the return of spec development after a decade-long absence, with Connect at Integra 61, Durham including a unit of 297,500 sq ft.

Most regions recorded an increase in supply in 2022, the only exception being the East of England which was broadly unchanged from 2021. Wales and the South West are the most well-supplied of the UK regions, with equivalent to 3.4 and 2.3 years of average take-up respectively. However, in absolute terms, the East Midlands continues to offer the largest total volume of UK supply, at 5.0m sq ft.

Source for all data unless stated: LSH Research

LARGE

QUALITY COUNTS

Having boasted a huge record for take-up in 2021, the large segment came down to earth hardest in 2022. While there remains scope for further rental growth in this segment, this is likely to be patchier in 2023, with a healthy choice of high quality options now available in some locations.

In the urgency to acquire space brought on by the pandemic, it is mostly in this segment that some occupiers overextended themselves. While we do not expect a huge amount of secondhand space to return to the market, this may be most prevalent in this segment. This reflects the increased pressures some occupiers now face, with higher operational costs and consumer headwinds manifesting themselves in efforts to consolidate.

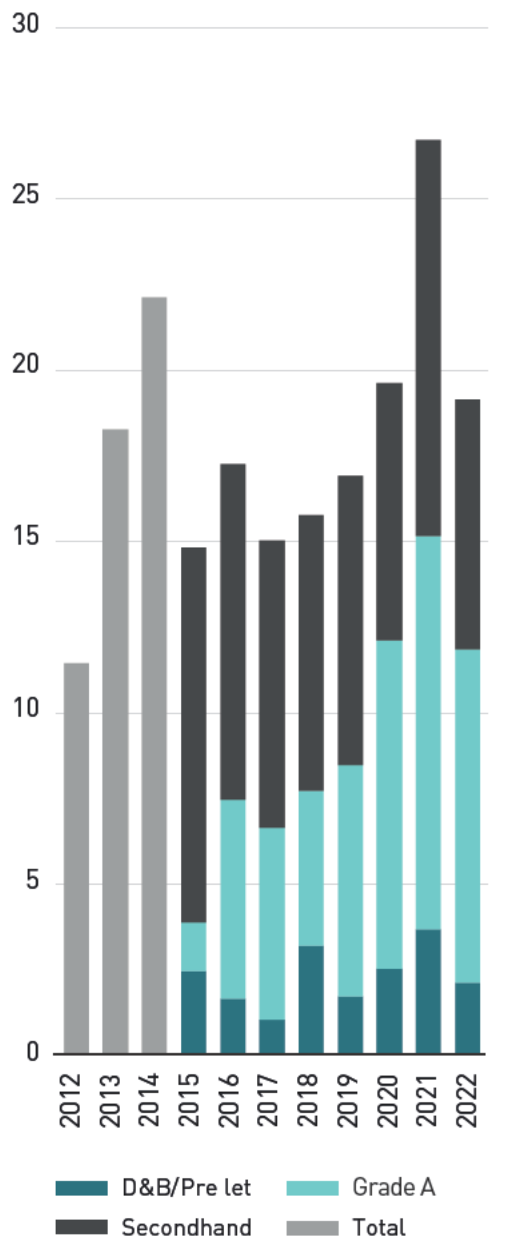
Broadly speaking, overall supply remains relatively tight in the large segment in its historical context. However, having seen an unprecedented boom in speculative development over the past two years, occupiers now enjoy significant choice at the quality end of the market, with UK-wide supply of new spec built and refurbished units soaring to an unprecedented high.

Quality, in terms of both specification and locational characteristics, will be fundamental to letting prospects. High energy costs and a strengthening focus on ESG credentials will see occupiers increasingly shun what remains in the secondhand market, and units built as recently as twenty years ago will require landlords to undertake refurbishments in order to preserve value.

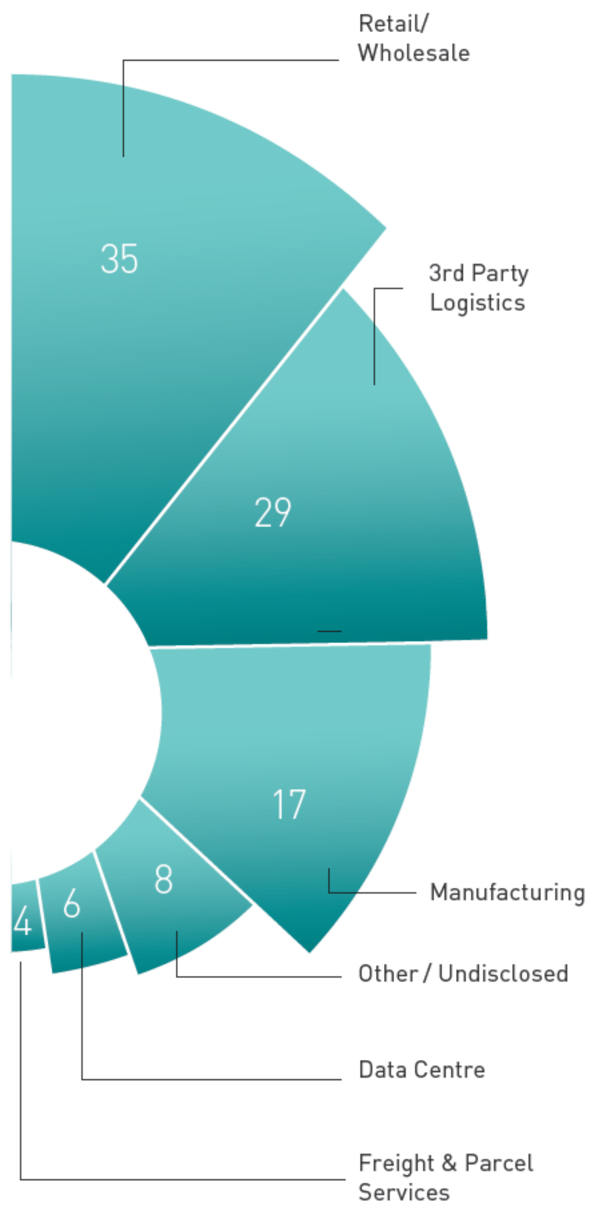
While quality supply has improved markedly, any concerns around looming oversupply are misplaced. The development pipeline in this segment has thinned considerably, with a relatively modest 4m sq ft of speculative development expected to come forward in 2022, less than half the recent peak.

There remains scope for further rental growth in this segment, albeit at much calmer rates and focused at either established core locations or newly emerging sub-markets where road infrastructure improvements have enhanced connectivity. However, landlords of developments in sub-optimal locations may find conditions tough-going in 2023, leading to

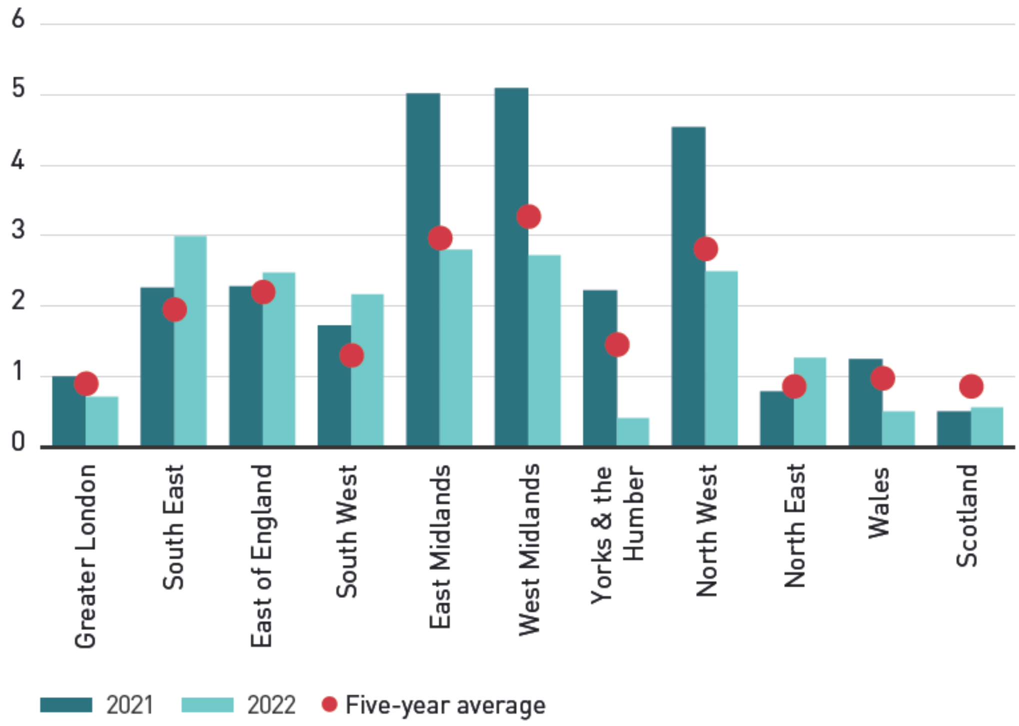
TAKE-UP BY GRADE (M SQ FT)



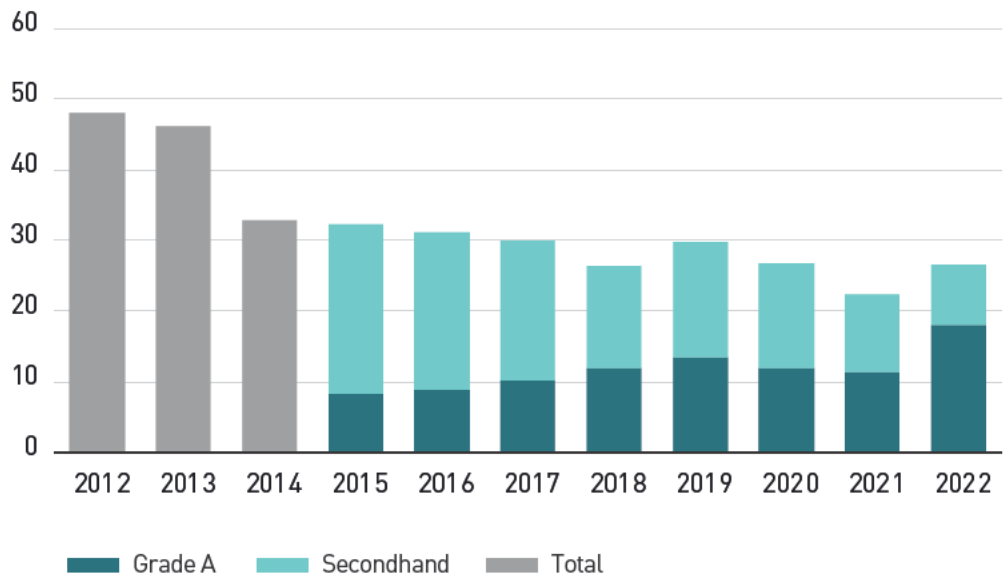
TAKE-UP BY OCCUPIER TYPE (%)



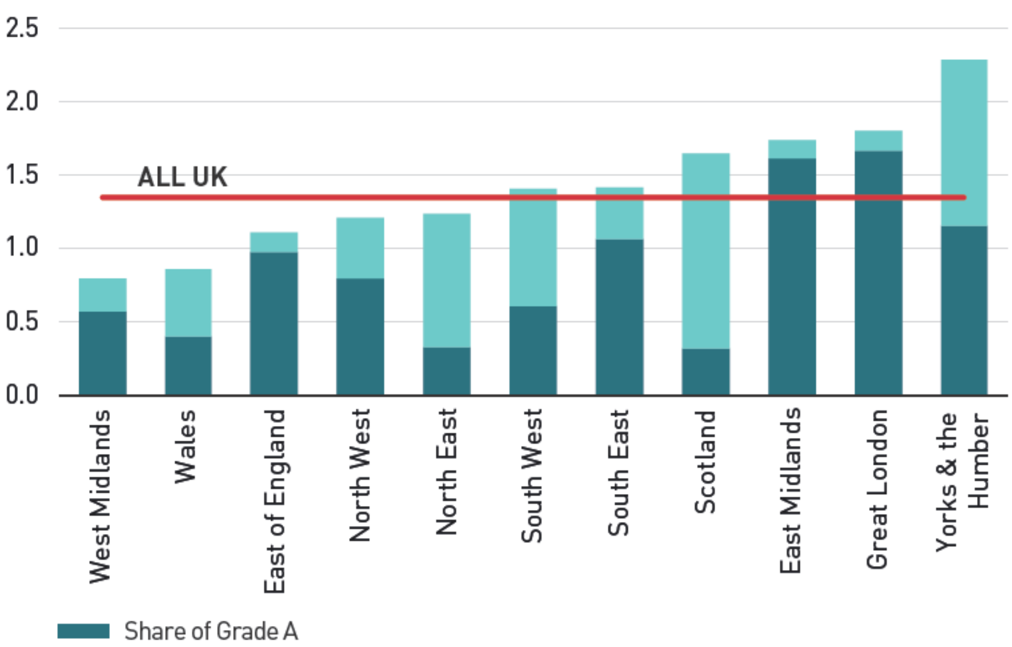
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



lower aspirations on quoting rents and requiring softer incentives to compete.

DEMAND

While 19.1m sq ft of large unit take-up in 2022 was only 3% below the five-year annual average, it was the weakest performing of the three segments against trend in 2022. Additionally, this segment bore the brunt of weakening occupier sentiment in late 2022, with Q4 take-up of 3.1m sq ft the lowest since Q1 2019 and 36% below the five-year quarterly trend.

Aided by improving choice, take-up for new-build and refurbished space remained strong in 2022, hitting 9.8m sq ft and 16% above the five-year annual average. Conversely, increasingly limited availability of secondary options saw take-up of secondhand space fall to its lowest level since 2012. A better choice of new build spec options appeared to weigh on build to suit activity, with take-up of 2.1m sq ft in 2022 being 20% below average.

Fortunes were mixed at the regional level. The North East, South West, South East and all enjoyed record take-up in 2022, with the latter also usurping the East Midlands as the region with the UK's leading share of large segment activity. At the other end of spectrum, Yorkshire & The Humber and Wales were notably subdued, with take-up 71% and 50% below average respectively.

While the retail & wholesale sector saw lower take-up in absolute terms compared with 2021, it continued to take a leading share of activity in the large segment, accounting for 35% of 2022's total. The main mover among the sectors was third party logistics providers, whose share of demand climbed from 18% in 2021 to 29% in 2022. In contrast, manufacturing's share of activity in the large segment slipped from 21% in 2021 to 17% in 2022.

SUPPLY

UK-wide availability in the large segment rebounded by 19% year-on-year from 2021's record low to stand at 25.5m sq ft. Despite this increase, supply is below the five-year average level and equivalent to only 1.3 years of average take-up.

The underlying make-up of supply shifted significantly in 2022. Reflecting a wave of speculative development, grade A supply increased by a considerable 58% to stand at a record high of 18.0m sq ft. Conversely, secondhand availability fell 22% year-on-year to 8.5m sq ft, its lowest level on record. Consequently, spec and refurbished space makes up a record 68% share of the UK's large unit supply.

Speculative development soared to a new high in the large segment, with 8.5m sq ft under construction at the end of 2022, up 16% on 2021's previous record. The East Midlands is the most active region for development in the large segment, home to 11 of the UK's 60 spec schemes, followed by the South East and the North West, each home to nine schemes.

Despite increasing choice at the nationwide level, four regions saw supply in the large unit segment tighten in 2022. The South West saw the largest reduction, down 44% during 2022, followed by the North East (-31%) and West Midlands (-27%) where, in both cases, supply now stands at a record low.

Source for all data unless stated: LSH Research

MID BOX

SMARTENING UP

A relative lack of development in the mid box sphere in the recent spec boom alongside increasingly discerning demand towards quality is expected to present significant opportunity within this sphere over the next cycle.

Of the three segments, mid box saw the smallest drop-off in take-up from 2021's record level, testament to the depth and breadth of demand associated with it and the lower prevalence of retail within the demand profile.

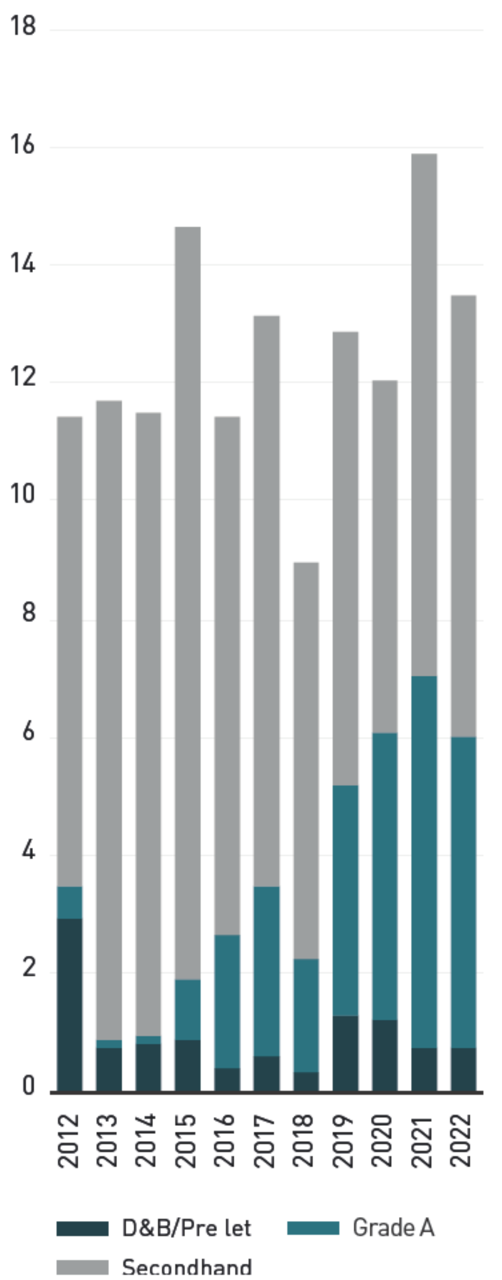
Despite the challenges posed by high occupational costs, the structural growth in demand for last mile logistics continues to underpin a key aspect of demand in the mid box space. With labour and transport costs typically dwarfing property costs by a factor of 3 to 1, prime locations that blend access to population centres with good transport links should remain highly sought after.

The focus of the development boom towards the larger segments was an entirely rational response; given the explosion of large format demand in the wake of the pandemic and the less efficient plot ratios associated with mid box schemes. However, with new build supply now more abundant in the large segment, opportunity is growing in this relatively underserved category for development, especially in the South East and East Midlands, where mid box supply is very tight.

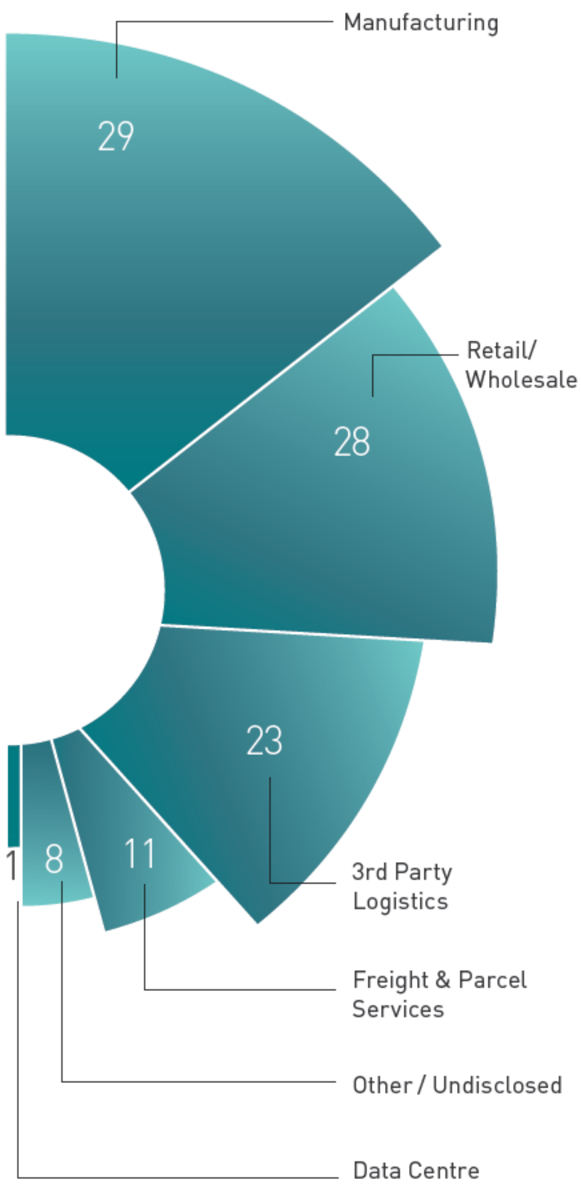
Indeed, currently less than half of the UK's mid box supply comprises new or refurbished space, compared with around three quarters for the larger segments. While occupiers in the mid box space have traditionally been less discerning over quality, the widening scope of demand for ESG credentials to include smaller businesses and efforts to mitigate high energy costs are expected to drive demand towards high quality mid box space.

However, as in the case for other segments, spec development in the mid box space is anticipated to ease down in 2023, with a relatively modest 1.7m sq ft currently expected to come forward. While this may prove frustrating for some occupiers, scarcity of quality product should help to maintain upward pressure on rents over the year ahead.

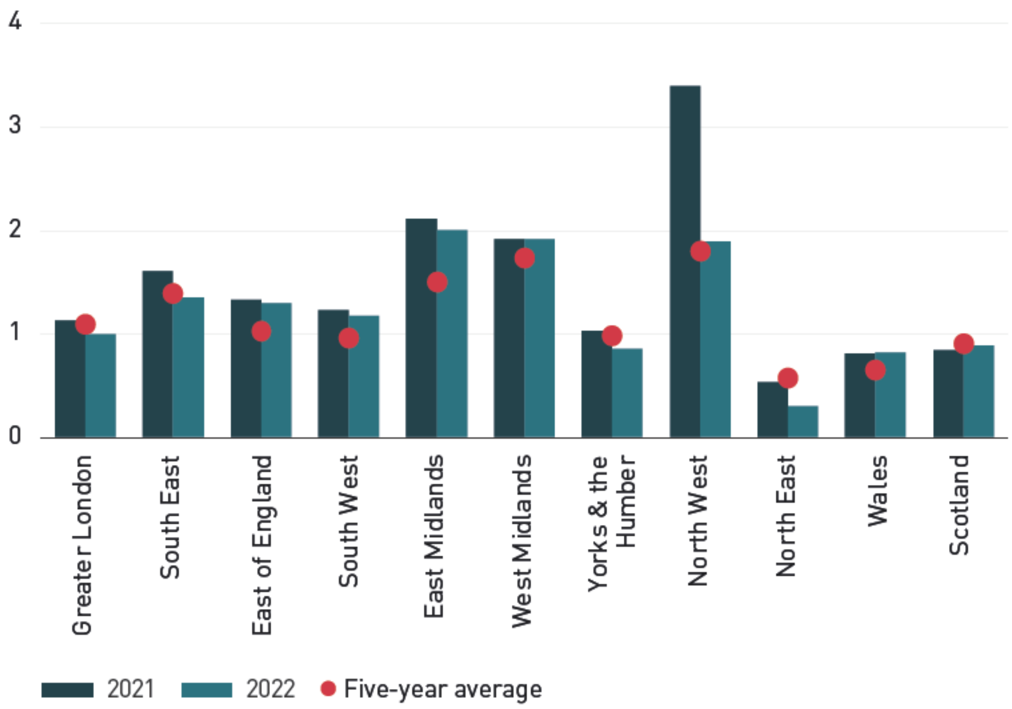
TAKE-UP BY GRADE (M SQ FT)



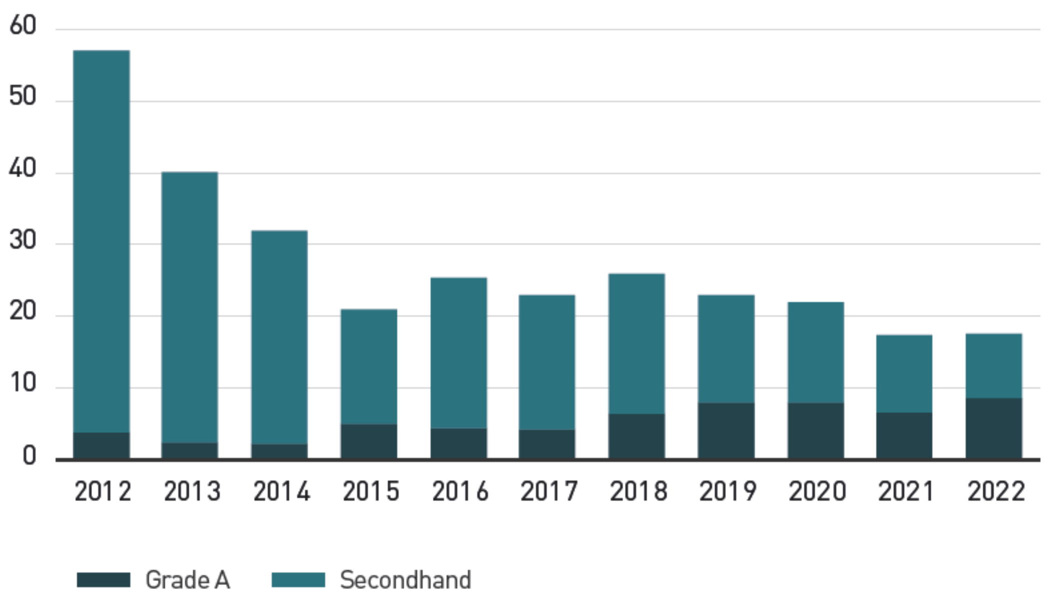
TAKE-UP BY OCCUPIER TYPE (%)



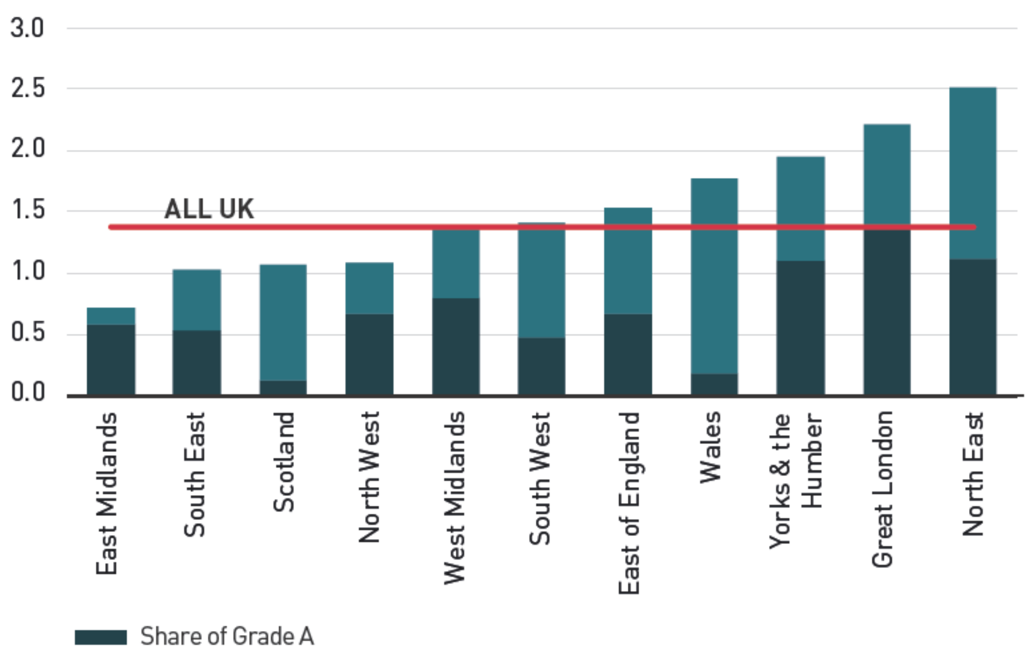
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



DEMAND

At 13.5m sq ft, total mid box take-up in 2022 was down 15% on 2021's record high but 6% above the five-year annual average. Indeed, of the three size-segments, mid box was the most resilient when compared against 2021's stellar volumes. Meanwhile, the strong focus on existing high quality space continued on from 2021, with activity involving new-build spec units accounting for a near record 39% share of take-up.

Six of the UK regions boasted mid box take-up above their annual averages in 2022. The East Midlands was the standout performer, with take-up of 2.0m sq ft only 5% short of 2021's record and 33% above trend. In contrast, the North West experienced the most severe downward shift in activity, with take-up in 2022 down 44% on the huge record set in 2021.

While manufacturing continued to be the most active sector within the mid box segment, its share of take-up slipped from 34% in 2021 to 29% in 2022. Notably, in sharp contrast with the two larger segments, retail & wholesale's share of take-up increased, accounting for 28% of activity in 2022 compared with 21% the previous year. The main mover among the sectors was third party logistics providers, whose share of demand climbed from 13% in 2021 to 23% in 2022. Meanwhile, in the parcel space, Evri was the only prominent mover in 2022, behind a handful of deals in southern England.

SUPPLY

While UK-wide mid box supply increased for the first time in four years in 2022, it only managed to edge up by 2% from 2021's record low. However, the underlying make-up of mid box supply saw more pronounced change. Mid box supply of spec and refurbished units increased by 30% year-on-year to its highest level on record while secondhand supply decreased by 16% to a record low of 8.9m sq ft.

Supply tightened in five UK regions during 2022, most sharply in the South East and Wales, where it fell by 32% and 24% respectively. In contrast, mid box supply in the North West and North East increased by 51% and 26% respectively. While the North West has witnessed considerable mid box development, supply still remains tight and is equivalent to only one year of average take-up.

Notably, Greater London has narrowly overtaken the West Midlands as the UK's highest supplied region for mid box supply in absolute terms, with availability of 2.4m sq ft equivalent to 2.2 years of average take-up. The rise reflects a wave of speculative development aimed at exploiting the growth in demand for urban logistics in the capital.

Across the UK as whole, 3.5m sq ft of mid box development was under construction at the end of 2022, down 13% year-on-year. Totalling 638,000 sq ft, the West Midlands has the largest volume of mid box spec development underway, while Yorkshire & The Humber saw a fourfold year-on-year increase in mid box spec development, with 571,000 sq ft underway at the end of 2022.

Source for all data unless stated: LSH Research

COUNTING THE COSTS

Business rates are likely to represent the single biggest increase in overheads for some industrial occupiers over the next few years. Paul Nash, Head of Rating at Lambert Smith Hampton, explains why.

REVALUATION TIME

All commercial properties in the United Kingdom are assessed for non-domestic rates based upon open market rental values. On 1 April 2023, all commercial properties across England & Wales will be reassessed for the purposes of non-domestic rates. The impact of the 2023 revaluation depends on how rental values have changed over the six years since the last valuation date in 2015. As we predicted last year, industrial properties are going to see significant increases in business rates over the next few years.

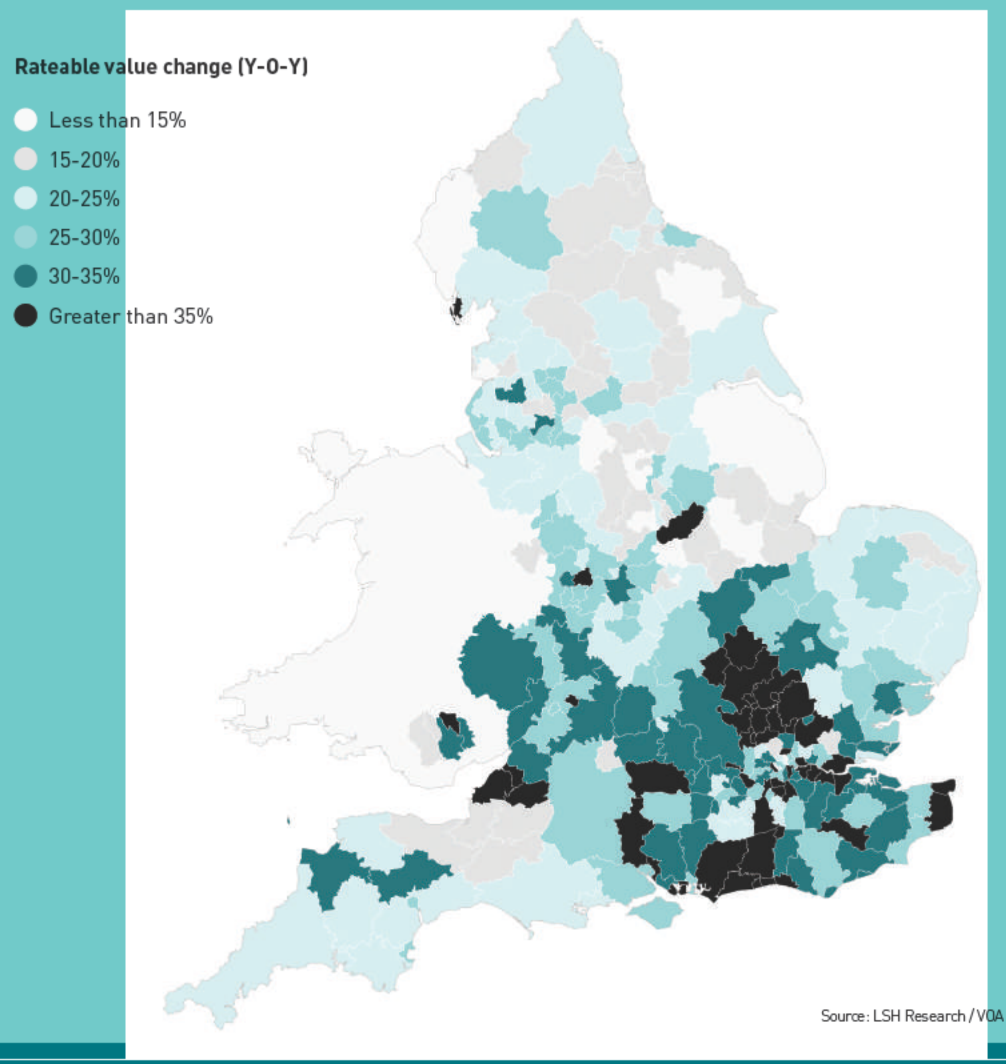
These increases come at a testing time for industrial and logistics occupiers, many of whom are already grappling with eyewatering increases in operating costs. The increased cost burden relates to both property-related costs, through strong rent rises and higher energy bills, and non-property costs, via increased costs of goods transport and labour.

INDUSTRIAL FEELS THE IMPACT

Fuelled by structural change and accelerated by the effects of the pandemic, industrial and logistics has significantly outperformed the main commercial property sectors in recent years. A cocktail of record take-up and undersupply has driven unprecedented rates of rental growth, both in the run-up to the 2021 valuation date and beyond.

The growth in rents up to April 2021 and its effect on 2023 rateable values has recently been revealed by the VOA. Across England and Wales, industrial properties are set to see a 27% average increase in rateable values, considerably higher than the 7% average for all commercial properties. The retail sector is the clear beneficiary, with rateable values down by -10% on average.

GROWTH IN INDUSTRIAL RATEABLE VALUES IN ENGLAND & WALES



LONDON AND THE SOUTH EAST HIT HARDEST

Due to geographical contrast in levels of rental growth, changes in rateable values are far from uniform. At the regional level, average growth in rateable values is, predictably, strongest in Greater London (up 33.1%) and the surrounding regions of the East (up 35.1%) and South East (up 33.5%). However, as the map illustrates, there is also wide variation within the regions of England and Wales themselves.

GROWTH IN INDUSTRIAL RATEABLE VALUES IN ENGLAND & WALES

The size of the industrial premises also has a key bearing on the extent of the increase. Indeed, for many larger warehouses located in and around Greater London rateable values are set to more than double and, at the extreme end, some of the larger properties around particular London hotspots will see a near-trebling in their rateable value.

SMALL UNIT OCCUPIERS GET MORE PROTECTION

Although the 2023 rating revaluation will hit the industrial sector hardest, the government has rightly offered some shielding in areas with large increases in rateable values though its transitional relief scheme. This effectively caps year-on-year increases in the rates liability up to 2026, and is set in three different tranches according to the rateable value amount, as detailed on the right.

The program of transitional relief affords occupiers of smaller properties with a considerable amount of protection from large increases in rateable values. Meanwhile, however, even with the transitional scheme in place, larger properties with higher rateable values could potentially see substantial year on year increases in liability across all three years of the new rating list.

RATE RISES IN CONTEXT

For those properties that will see the largest increases in rateable value, the phasing in of substantially increased rates liabilities will feed into tangible increases to overall occupational costs.

Using a case study based on an actual property in East London - a very high growth area for rateable value change - the chart to the right places the rate rises into a wider context with overall occupational costs. As can be seen, due to less generous transitional relief arrangements associated with larger buildings, the rates payable are set to jump sharply from April 2023 and ratchet up further to 2025/26.

Furthermore, for many occupiers of larger properties, increases in business rates will provide the main component of growth in overall projected occupational costs between the end of 2022 and 2026. Indeed, with clear signs that the energy price shock of 2022 is increasingly behind us, the rise in business rates will more than offset the forecast reduction of energy costs by 2024.

MIXED IMPACTS

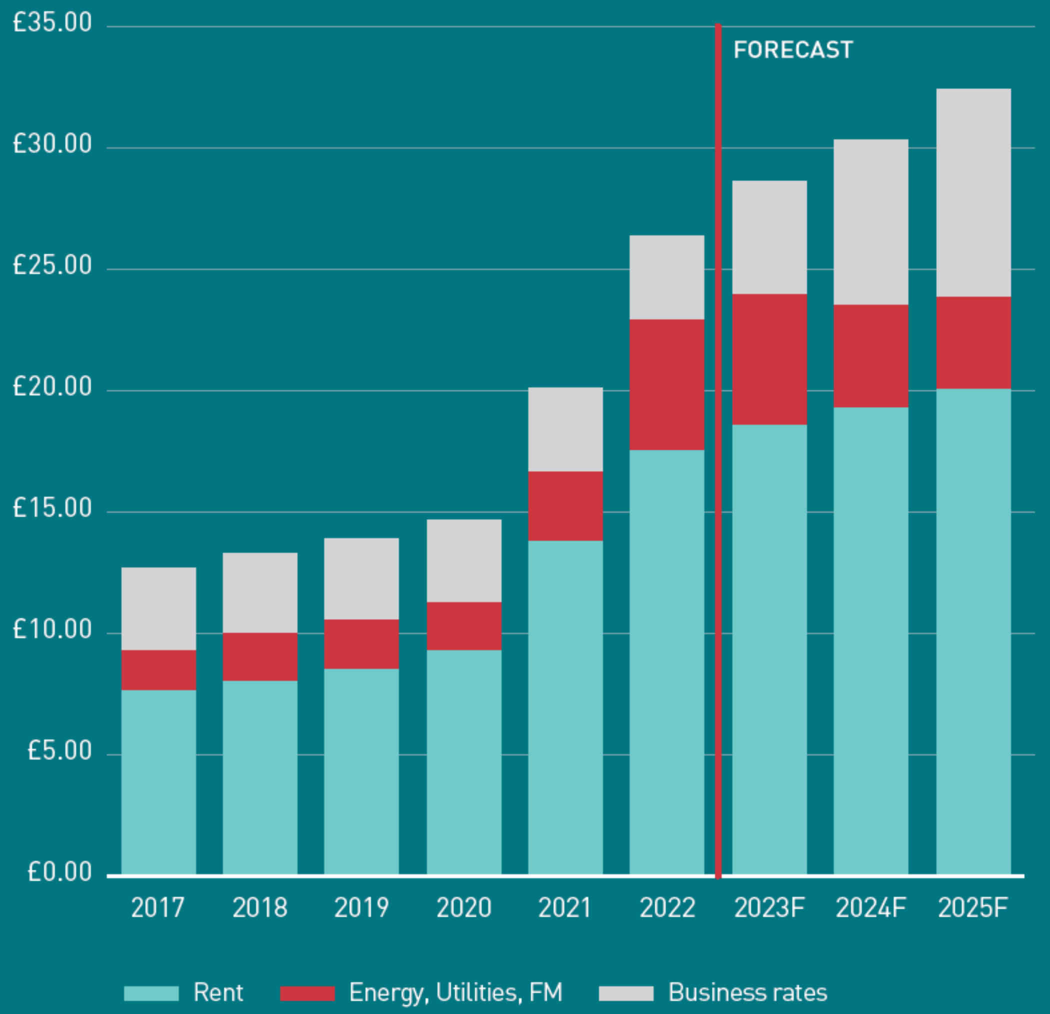
Quite how these elevated costs will impact upon occupiers depends on a host of variables and, ultimately, businesses' ability to pass costs onto consumers. In the logistics space, overall property costs, high as they now are, still represent a relatively small part of the overall cost base when considered alongside transport and labour costs (approximately 30%), which themselves have seen pronounced increases over the past 18 months.

However, with many businesses in the logistics landscape operating with tight margins, the prospect of sharp rises to business rates will be hard to stomach alongside everything else. While the Government is unlikely to reconsider the transitional relief for larger properties, as is always the case, occupiers will be able to appeal the increases if there is evidence to suggest that the 2023 rateable values are inadequately reasoned.

ILLUSTRATIVE GUIDE TO TRANSITIONAL RELIEF FOR INDUSTRIAL OCCUPIERS

	CAP TO THE RATES PAYABLE		
Rateable value	2023 to 2024	2024 to 2025	2025 to 2026
Up to £20,000 (£28,000 in London)	5%	10% plus inflation	25% plus inflation
£20,001 (£28,001 in London) to £100,000	15%	25% plus inflation	40% plus inflation
Over £100,000	30%	40% plus inflation	55% plus inflation

EAST LONDON PROPERTY COST (120,000 SQ FT UNIT)



Source: LSH Research

HOW CAN WE HELP?

Lambert Smith Hampton's business rates experts are located throughout the UK and have access to unrivalled market knowledge through our national network of offices. Access to this market data coupled with our business rates expertise means we are ideally placed to provide advice to both occupiers and owners of industrial properties on the scope for challenging the new 2023 rateable values and other potential ways to mitigate business rates liabilities.

INVESTMENT & SPECULATIVE DEVELOPMENT

INVESTMENT MARKET

INTO ALIGNMENT

Having borne the brunt of last year's seismic shift in financial conditions, dust is already starting to settle in the industrial investment market. While occupier market risks have increased, ongoing rental growth prospects should restore industrial as the lead-performing UK sector over the coming years.

2023 has brought with it a palpable improvement in investor sentiment for UK industrials. With regard to quality, well-let distribution assets, the severe pricing correction of late 2022 has already run its course, aided by improving certainty over the direction of travel for interest rates.

Positively, pricing expectations between buyers and sellers are quickly moving into alignment, with notable examples of unsold stock from 2022 expected to transact during 2023. Greater certainty over pricing will pave the way for improving activity, with a modest quarter for volume in Q1 expected to be followed by a tangible improvement in Q2 and beyond.

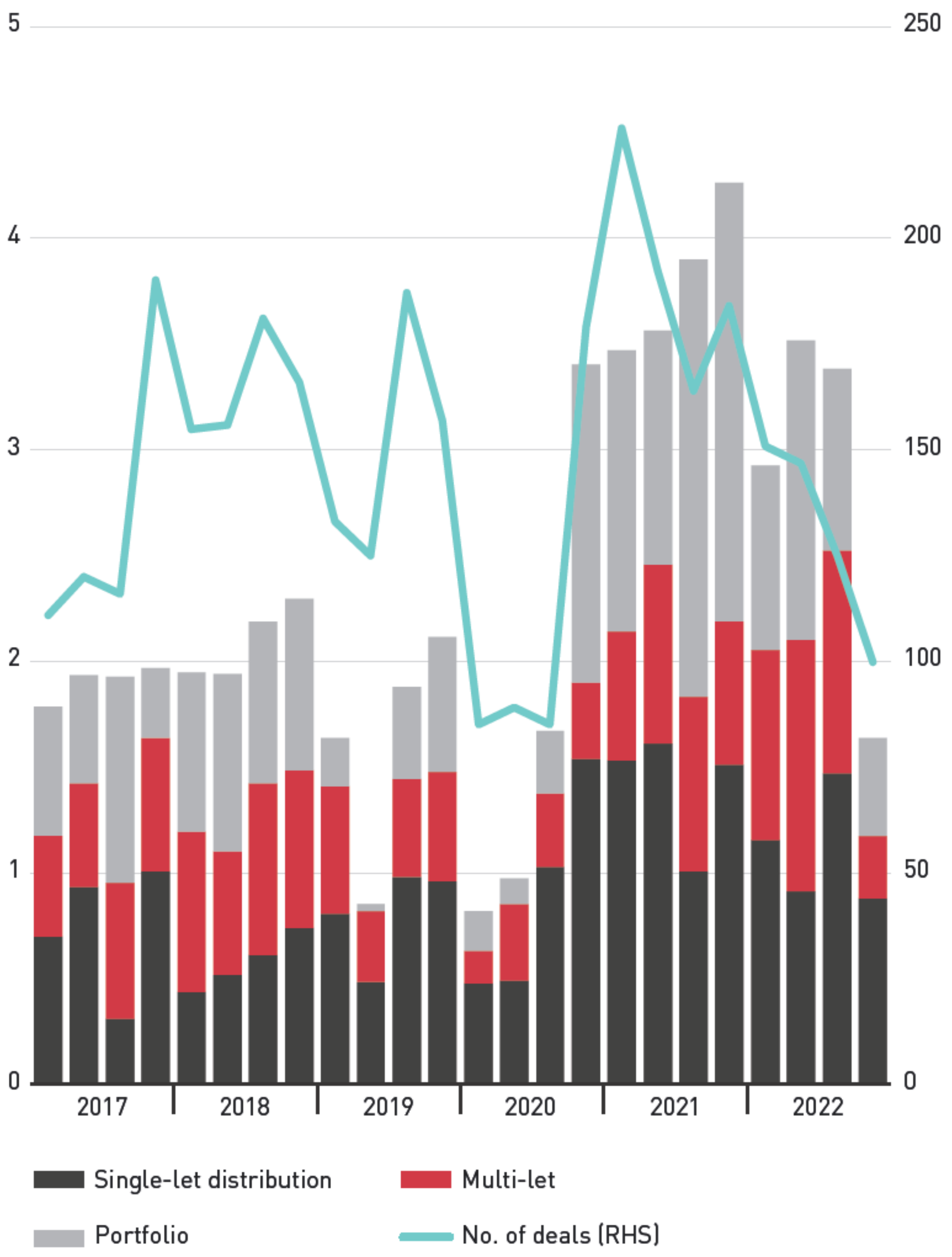
A strong weight of money continues to target UK industrial, especially from overseas, and these buyers will again be key to driving volume in 2023. On the domestic front, institutional investors are likely to remain in selling mode generally, while the REITs should become more acquisitive as the year progresses, once has capital has been recycled from selected disposals.

While industrial and logistics continues to benefit from positive underlying fundamentals, economic headwinds and painfully high operating costs have increased perceptions of risk in the occupier markets, and more so in the multi-let arena. An even sharper investor focus on quality and a commensurate aversion to secondary assets and or weaker covenants will give rise to an increasingly divergent performance in 2023.

Indeed, if gilt yields come down further than expected, potential exists for a degree of yield compression for prime product later in the year. Meanwhile, further price softening may prove necessary in the secondary market to account for the cap ex required to bring these assets up to standard, in terms of both the ESG credentials and energy efficiency that occupiers increasingly demand.

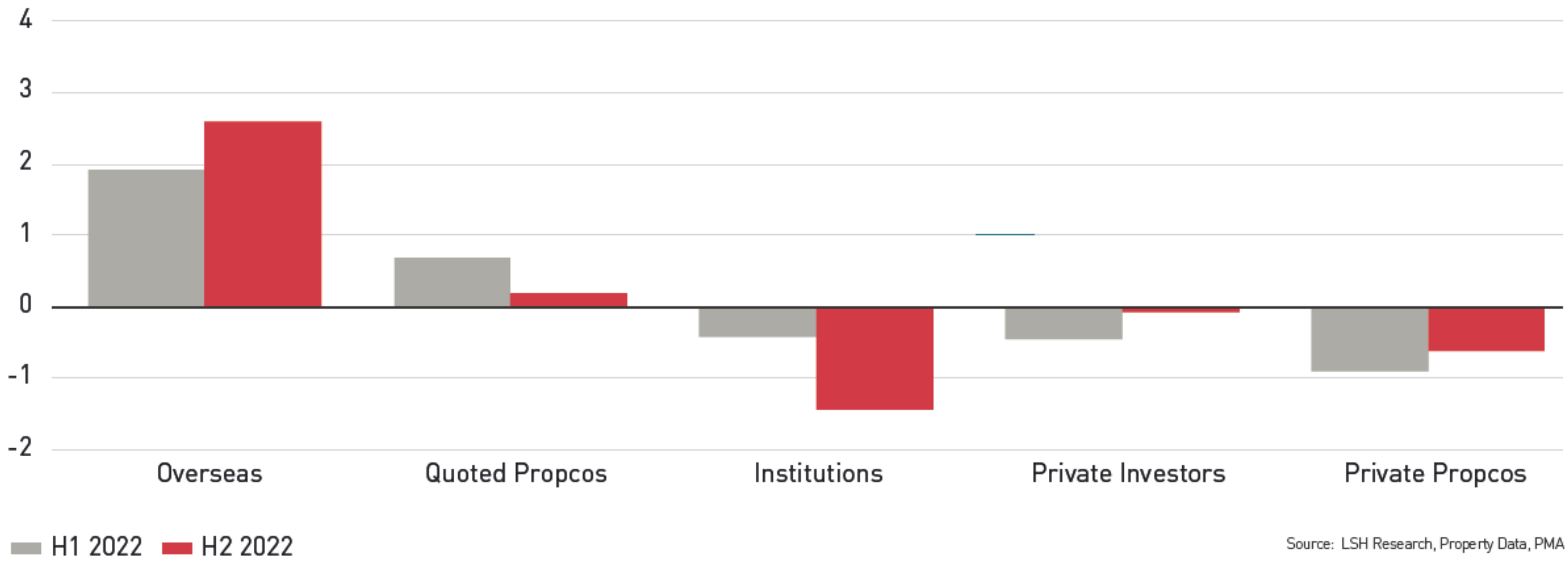
While the dizzying levels of returns seen over the past five years will not be repeated any time soon, industrial continues to benefit from stronger rental growth prospects vis-à-vis other commercial property sectors. Consequently, in spite of the increased occupier market risks, industrial is set to regain its status as the UK's best performing sector over the medium term.

INDUSTRIAL INVESTMENT VOLUME (£BN)



Source: LSH, Property Data, PMA

2022 INDUSTRIAL INVESTMENT BY TYPE (£BN)



Source: LSH Research, Property Data, PMA

ACTIVITY

The financial market chaos of last autumn brought the long, strong run of industrial & logistics volume to an abrupt end in the final quarter of 2022. At £1.6bn, Q4 volume slumped by 50% from Q3's surprisingly strong outturn, the lowest since Q2 2020 and 33% below the five-year average.

The sharp fall reflected both reduced pricing and a lack of large transactions, with Q4 seeing only one deal over £100m, far removed from the 13 seen earlier in the year in Q1 2022. Notably, unlike other property sectors, particularly retail and offices, there remained a reasonable depth to market activity in the final quarter. Q4 still managed to muster 100 deals, only around 25% down on the boom-time average spanning the previous two years.

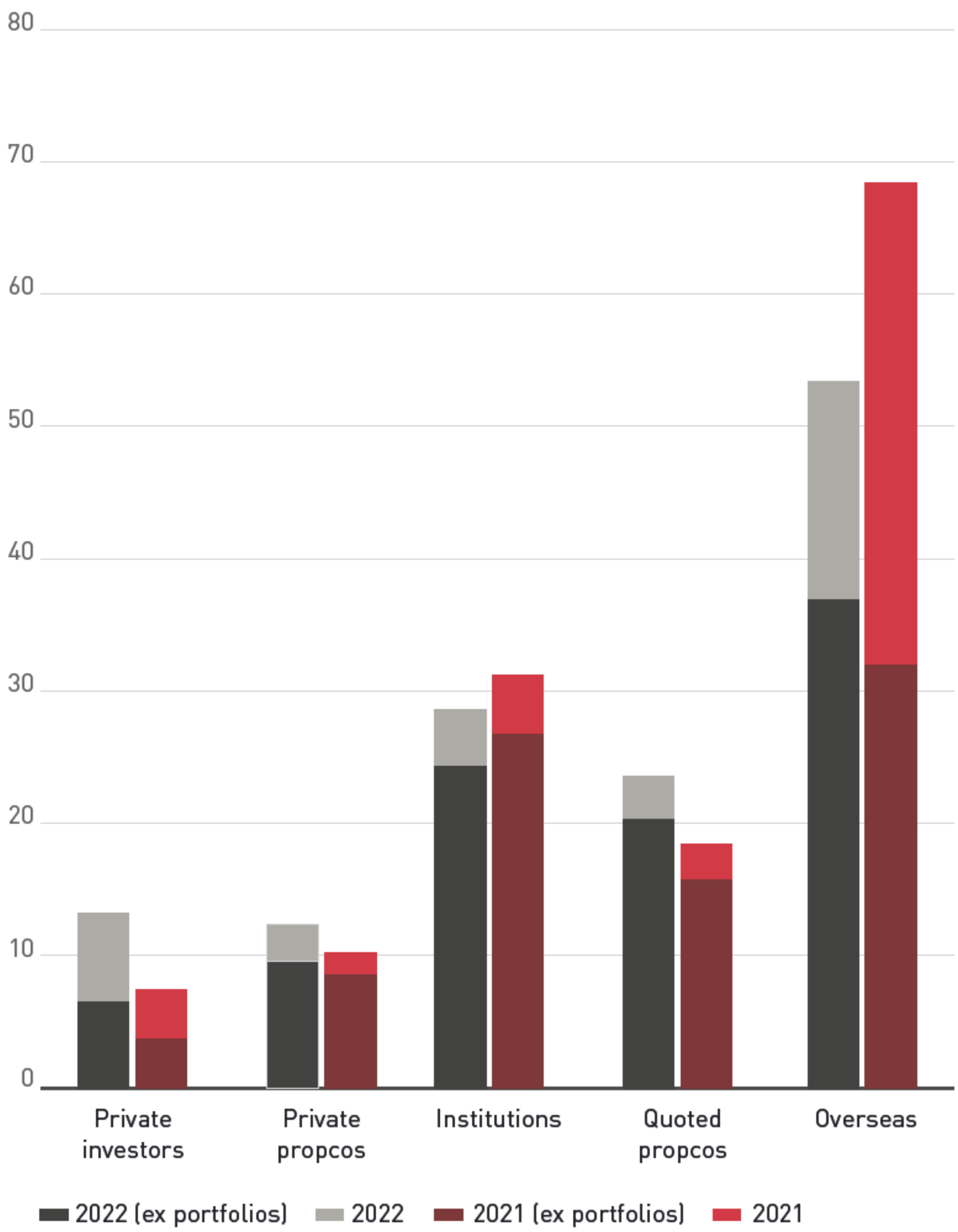
Despite the sea-change in pricing and sentiment during 2022, the industrial and logistics sector still delivered a very impressive year overall. Bolstered by an impressive start to the year, £11.5bn worth of industrial & logistics assets changed hands in 2022 as a whole, 24% below 2021's colossal high but nonetheless the second strongest year on record.

Distribution warehouses dominated volume in the sector throughout 2022, albeit to a lesser extent than recent years. At £7.1bn, distribution warehouse volume in 2022 was down 33% on 2021's record and accounted for 62% of the annual total, its lowest share in three years.

Meanwhile, despite a greater perception of occupier market risks in the multi-let arena, taken together, South East and Rest of UK industrials fared slightly better than distribution warehouses in 2022 relative to 2021. Thanks to a very strong first half of the year, the two sub-sectors collectively saw volume of £4.4bn in 2022, only 6% below 2021's total and the third strongest year on record.

Notably, indicative of a renewed emphasis on defensive attributes, the slump in Q4

AVERAGE LOT-SIZE BY INVESTOR TYPE (£M)



Source: LSH Research, Property Data, PMA

PRICING Q4 2022

PRIME YIELDS		3 MONTH CHANGE (BPS)	12 MONTH CHANGE (BPS)
South East Industrial	5.25%	100	150
Rest of UK Industrial	5.75%	50	125
Distribution Warehouses	4.75%	75	150

TRANSACTION YIELDS		3 MONTH CHANGE (BPS)	12 MONTH CHANGE (BPS)
South East Industrial	5.00%	160	69
Rest of UK Industrial	5.55%	74	38
Distribution Warehouses	4.86%	107	124
All Industrial	5.04%	131	82

FRADLEY PARK LICHFIELD

In March, LSH acquired Fradley Park in Lichfield on behalf of M7 Real Estate and Oxford Properties for £60.4m (NIY 3.39%). Fradley Park comprises a 396,857 sq ft unit and is let to Newell Rubbermaid UK Services for a further 9.1 years.

BARCLAY WAY THURROCK

In May, LSH successfully completed the disposal of Barclay Way in West Thurrock on behalf of Blue Viper. The asset was acquired by Blackrock for a total price of c.£45.0m (NIY c.3.00%). The property is 162,000 sq ft and is let to London City Bond for a further 17.6 years.

YEOMANS DRIVE MILTON KEYNES

In June, LSH acquired a John Lewis distribution centre in Milton Keynes on behalf of JD.com for an undisclosed sum. The property measures 361,091 sq ft and is let to John Lewis for a further 3.1 years.

SPRINGFIELD INDUSTRIAL ESTATE HAYES

In March, LSH acquired Springfield Industrial Estate in Hayes on behalf of Fortress for £32.0m (NIY 2.40%). The total space amounts to 76,634 sq ft and is let to four tenants, producing a total income of £819,429 per annum.

HORSHAM TRADE PARK HORSHAM

On behalf of CBRE IM, LSH sold Horsham Trading Estate in Horsham for £10.6m (NIY 3.75%). The multi-let estate has an unexpired term of 6.52 years and extends to 48,406 sq ft. The property was purchased in June by IPIF.

EQUITES PARK HOYLAND

In 2021, LSH successfully completed the acquisition of Equites Park, Hoyland on behalf of Arrow (SIRE) for £50.7m. The speculative forward commitment scheme comprised two units totalling 451,000 sq ft, reflecting a capital value of £112 per sq ft.

bore a much closer resemblance to 2021's breakdown of volume between the various sub-sectors. Distribution warehouses accounted for a substantial 77% of Q4 volume as activity in the multi-let arena dropped to £375m (inclusive of portfolios) for both of its sub-sectors combined, the lowest since Q3 2020.

BUYERS AND SELLERS

Despite the severity of the market correction, overseas investors continued to drive volume in the sector, deploying £6.1bn in 2022, three quarters of which went into distribution warehouses. While this was the second strongest year on record for overseas buying, it was 25% down on 2021's peak. In typical fashion, overseas buyers dominated at the larger end of the market, behind eight of 2022's ten largest deals.

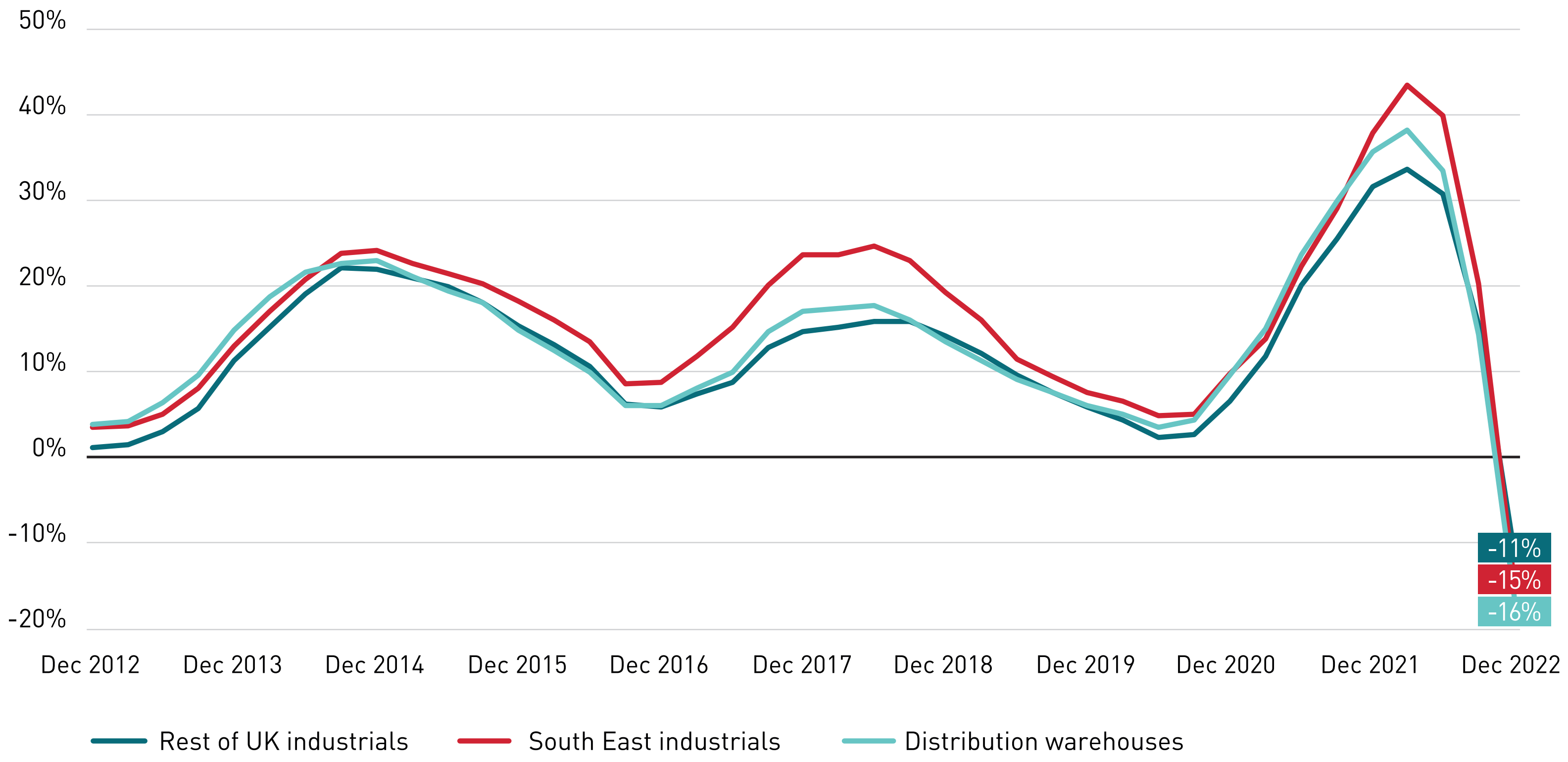
Understandably, Q4's sharp drop-off in volume reflected a commensurate fall of overseas inflows during the quarter. Despite being boosted by ICG's substantial £220m acquisition of the Morrisons Portfolio, overseas inflows of £845m in Q4 was the lowest in nine quarters and 25% below the five-year quarterly average.

The origin profile of overseas buyers was more diverse in 2022 than previous years. North America was slightly less dominant than previously, with buying of £3.2bn down 48% on 2021, while inflows from Europe and the Far East hit record levels in 2022, with volume of £524m and £714m respectively. That said, Far Eastern volume was dominated by the largest industrial deal of the year, namely GIC Real Estate's £425m (4.50% NIY) acquisition of the UK Land Estates portfolio (Project George) from Northwood Investors.

Domestic buyers were generally less acquisitive than overseas buyers in 2022 relative to trend. Across all domestic buyer-types combined, volume of £5.4bn in 2022 was 24% down on 2021 and 1% above the five-year average. Record

Source for all data unless stated: LSH Research

ANNUAL TOTAL RETURN (%, Y-ON-Y)



Source: LSH Research, MSCI

pricing during the first half of the year and strong overseas appetite provided a tempting opportunity to crystallise substantial gains in some cases. As a result, domestic investors were net sellers to the tune of £4.5bn in 2022.

However, activity among the domestic buyer types varied significantly. Quoted propcos were the only net buyers of industrial & logistics in 2022, at £886m for the year. Urban Logistics REIT Plc was the most active quoted propco, behind 14 of the year's 58 purchases made by REITs. However, REITs activity slowed markedly in H2 as the market changed, culminating in only £22m worth of purchases across three deals in Q4.

UK institutions were net sellers of industrials for a third consecutive year in 2022. Record annual disposals of £3.7bn gave rise to substantial net selling of £1.9bn, most of which was focused in the second half of the year as the funds scrambled for liquidity. CBRE Investment Management was the most active institutional seller in 2022, disposing of 20 assets, while Abrdn sold the most from a volume perspective, disposing of more than £600m across nine assets.

Despite the wider trend to sell, several institutional buyers did capitalise on significant repricing in the market to secure quality assets in Q4. Notable examples included Aviva's purchases of a unit at Omega Park, Warrington (£88.63m / 4.45%) and a Brake Brothers unit in Reading (£46.50m / 4.68%); and CBRE Capital Advisors' purchases of Unit 1 Symmetry Park, Swindon (£31.185m / 4.95%) and Hams Hall 145, Birmingham (£22m / £4.50%).

PRICING AND PERFORMANCE

Having been the standout performer of the wider UK property market for five successive years, industrial & logistics experienced a major reality check in 2022. With yields at record low levels, the sector bore the brunt of rising inflation and the complete unravelling of financial market conditions in the second half of the year.

In the space of six months, notional yields across the market softened by 150-175bps from the all-time lows seen earlier in 2022. Yields for long indexed-leased distribution warehouses softened by 150bps in H2 2022 to circa 4.75%, while yields for prime South East multi-let estates softened by 175bps to circa 5.25%. The dramatic shift in pricing was also clear to see in the market, with the average industrial transaction yield shifting up by 131bps in Q4 alone to a two-year high of 5.04%.

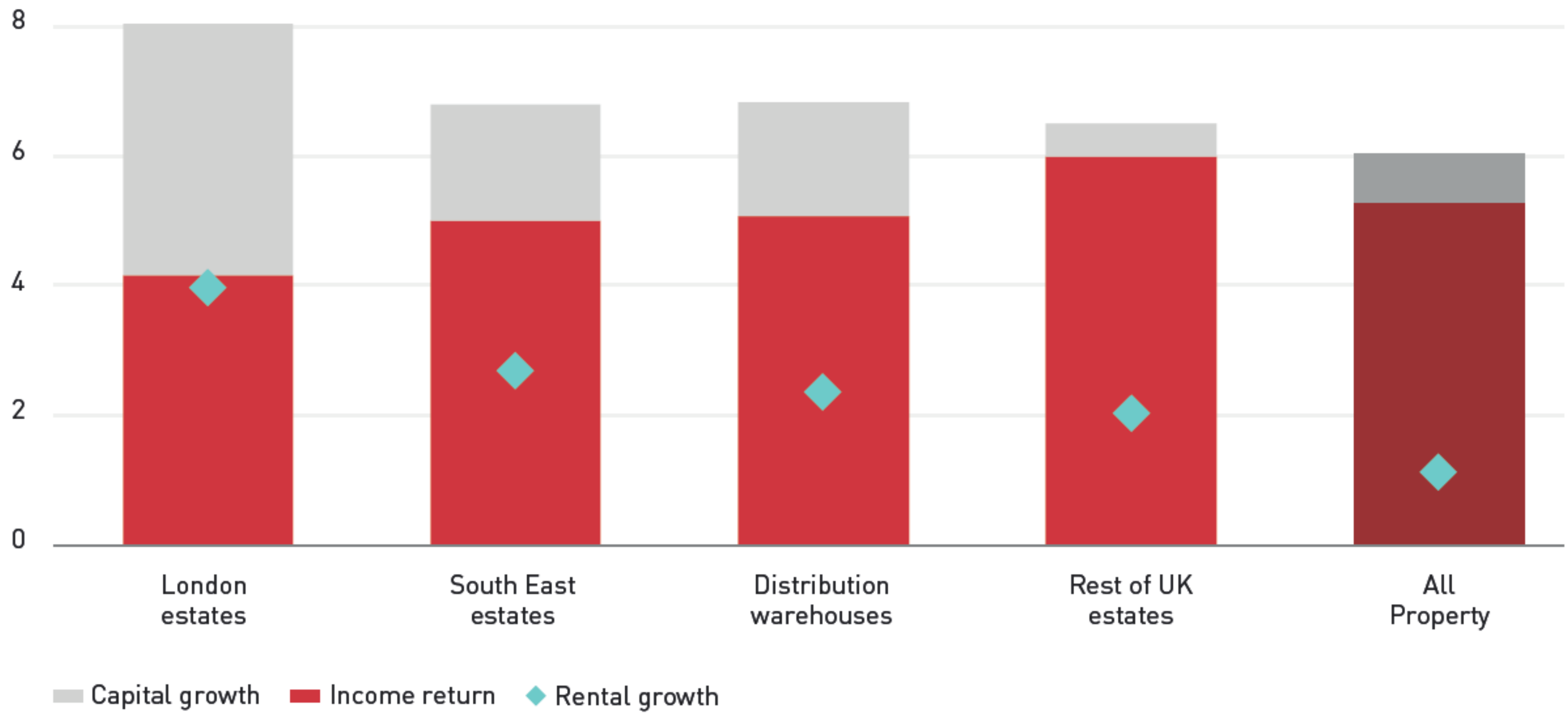
The substantial price correction weighed very heavily on returns, with industrial ending 2022 as the worst performing UK property sector. According to MSCI's quarterly index, UK industrial returns hit a record quarterly low of -18.4% in Q4 2022. All of the sector's performance from earlier in the year was erased at a stroke, dragging annual returns for 2022 down to -14.6%, the weakest outturn since the 2008 global financial crisis.

While the severe correction was evident across the industrial landscape, there was some degree of variation between sub-sectors. Distribution warehouses saw the weakest performance on the MSCI measure, with returns of -16.2% during the 12 months to the end of 2022, while Rest of UK Industrials was the least badly impacted, with total returns at -11.1%.

Positively, evidence increasingly suggests that most of the correction has already taken place, certainly with regard to prime, well-let assets. Positively, independent forecasts suggest industrial will regain its status as the UK's top performing core asset class over the medium term, albeit not to the extreme levels of the recent past.

Latest forecasts from RealFor predict average annual UK industrial returns of 6.9% per annum over the period from 2023 to 2027, marginally ahead of All Property returns of 6.1% per annum. Sector returns are expected to be led once again by London estates, with forecast average returns of 8.2% per annum. Industrial's relatively modest level of projected outperformance, certainly compared with the recent past, is largely fuelled by expectations of continuing rental growth, with rents projected to grow by 2.6% per annum up to 2027, compared with 1.1% for All UK Property.

FORECAST COMPONENTS OF RETURN (2023 TO 2027, % P.A.)



Source: LSH Research, RealFor

KEY INVESTMENT TRANSACTIONS IN 2022

	PROPERTY	PRICE (£M)	NIY	MONTH	BUYER	VENDOR
PORTFOLIO	PROJECT GEORGE	£425.00	4.63%	DEC-22	GIC	Northwood Investors
PORTFOLIO	HERCULES PORTFOLIO	£391.00	3.10%	APR-22	AXA IM	Goldman Sachs / Canmoor
PORTFOLIO	LEFTFIELD CAPITAL PORTFOLIO	£230.00	3.00%	JUN-22	Kennedy Wilson	Leftfield Capital
PORTFOLIO	MORRISONS PORTFOLIO	£220.00	7.25%	DEC-22	ICG Real Estate	CD&R / Morrisons
PORTFOLIO	PROJECT SNOOP	£54.00	4.88%	DEC-22	Mileway	UBS
DISTRIBUTION WAREHOUSE	WAKEFIELD HUB	£233.00	3.47%	FEB-22	Arrow Capital Partners	Mountpark
DISTRIBUTION WAREHOUSE	WEST ROAD, ELLESMERE PORT	£101.00	3.77%	JUN-22	Frasers Property	Stoford
DISTRIBUTION WAREHOUSE	HUB 250, BIRMINGHAM	£52.00	2.82%	APR-22	Valor	NFU Mutual
DISTRIBUTION WAREHOUSE	SUTTONS BP, READING	£46.50	4.68%	DEC-22	AVIVA	Abrdn
DISTRIBUTION WAREHOUSE	SUPER W, WARRINGTON	£32.10	4.96%	DEC-22	Leftfield Capital	BAPF / Tungsten
MULTI-LET	ICON, HARLOW	£140.00	3.48%	MAR-22	Mirastar	TPG / Stoford
MULTI-LET	THAMES GATEWAY DAGENHAM	£98.80	4.02%	DEC-22	Boreal IM	Abrdn
MULTI-LET	LYONS PARK, COVENTRY	£41.70	3.21%	JAN-22	DTZIM	Columbia Threadneedle
MULTI-LET	TRADE & LOGISTICS CITY, LUTON	£38.40	3.15%	MAY-22	Abrdn	Kier
MULTI-LET	CASTLE BROMWICH BP, BIRMINGHAM	£27.70	3.24%	APR-22	M7 / Oxford	Aviva

Source: LSH Research, Property Data, Property Archive

SPECULATIVE DEVELOPMENT

EASING DOWN

While speculative development soared to new heights during 2022, recent trauma in the investment market will loom large over the year ahead, with new development starts easing off appreciably.

Reflecting an array of commitments made earlier in the year, 23.6m sq ft of space was under construction across the UK at the end of 2022, 14% above 2021's previous record. Remarkably, speculative space under construction accounts for 36% of total UK supply.

The expansion of spec development was driven by the sheer number of units coming forward as opposed to an increase in unit size. 150 units were under construction at the end of 2022, rising from 133 units 12 months prior. The focus of development has shifted slightly towards smaller product, with the average size of units under construction down 15% year-on-year to stand at 133,000 sq ft.

FOCUS ON LARGE SEGMENT

The largest increase in development was in the large segment (100k-250k sq ft), with the number of units under construction rising by 33% year-on-year to stand at 9.7m sq ft. The East Midlands is a major hotspot for this large segment, with activity increasing by more than 50% over the year to stand at 2.3m sq ft at the end of 2022.

While the majority of regions saw construction of XL units ease down in 2022, total UK-wide spec development of units over 250,000 sq ft edged up by 6% year-on-year to stand at 9.9m sq ft. Yorkshire & The Humber became a major focus of activity, with XL units under construction increasing by 147% year-on-year to 2.9m sq ft, while the North East saw spec development return in this size-band after a 15-year hiatus.

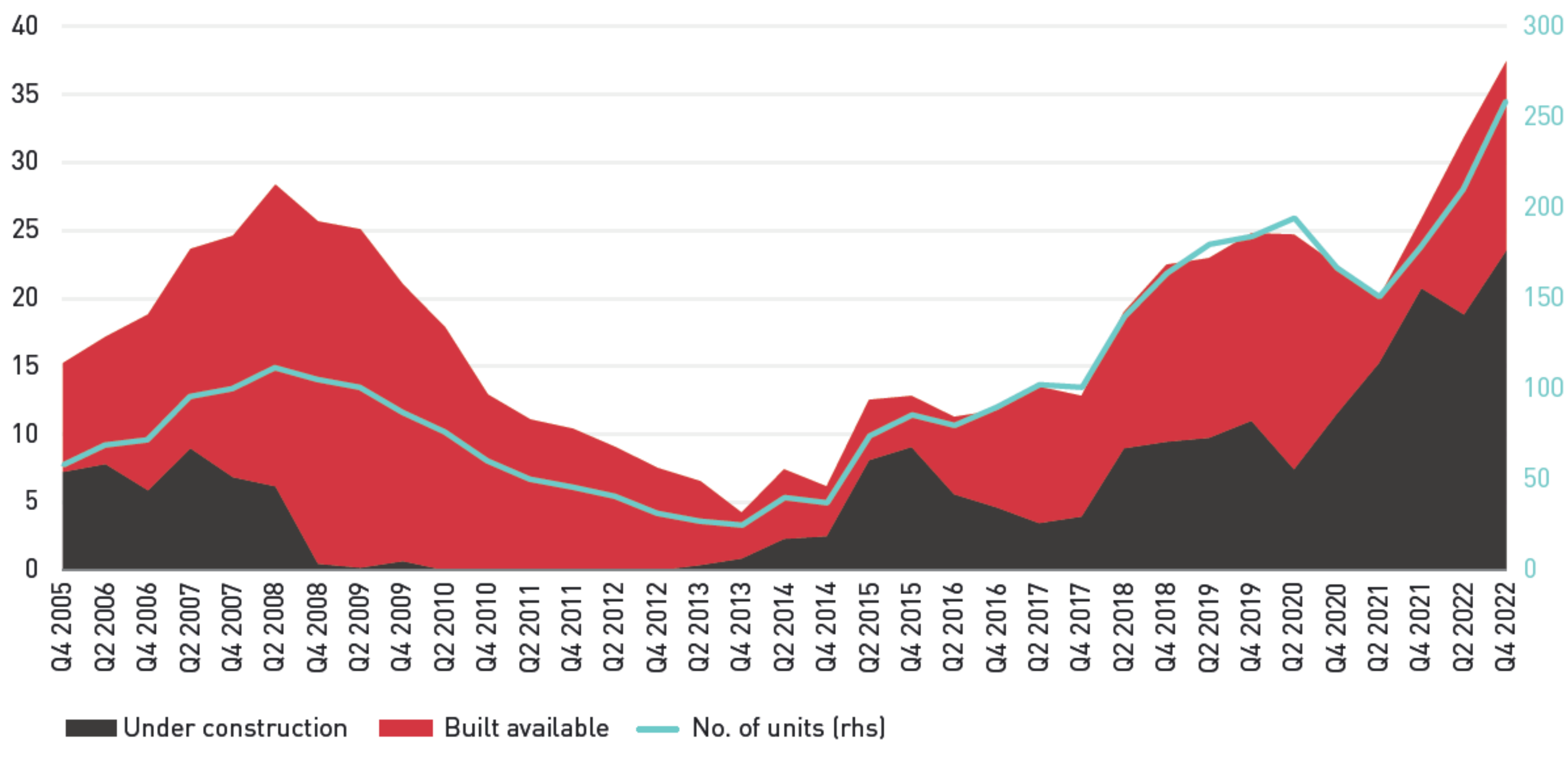
Meanwhile, having seen strong increases in activity in recent years, spec development of mid box units remained in line with 2021 levels, with 4.0m sq ft under construction at the end of 2022. However, a handful of regions saw strong increases, most notably Yorkshire & The Humber, where 1.1m sq ft of mid box units are coming forward, an eightfold increase on 2021.

YORKSHIRE & THE HUMBER LEADS

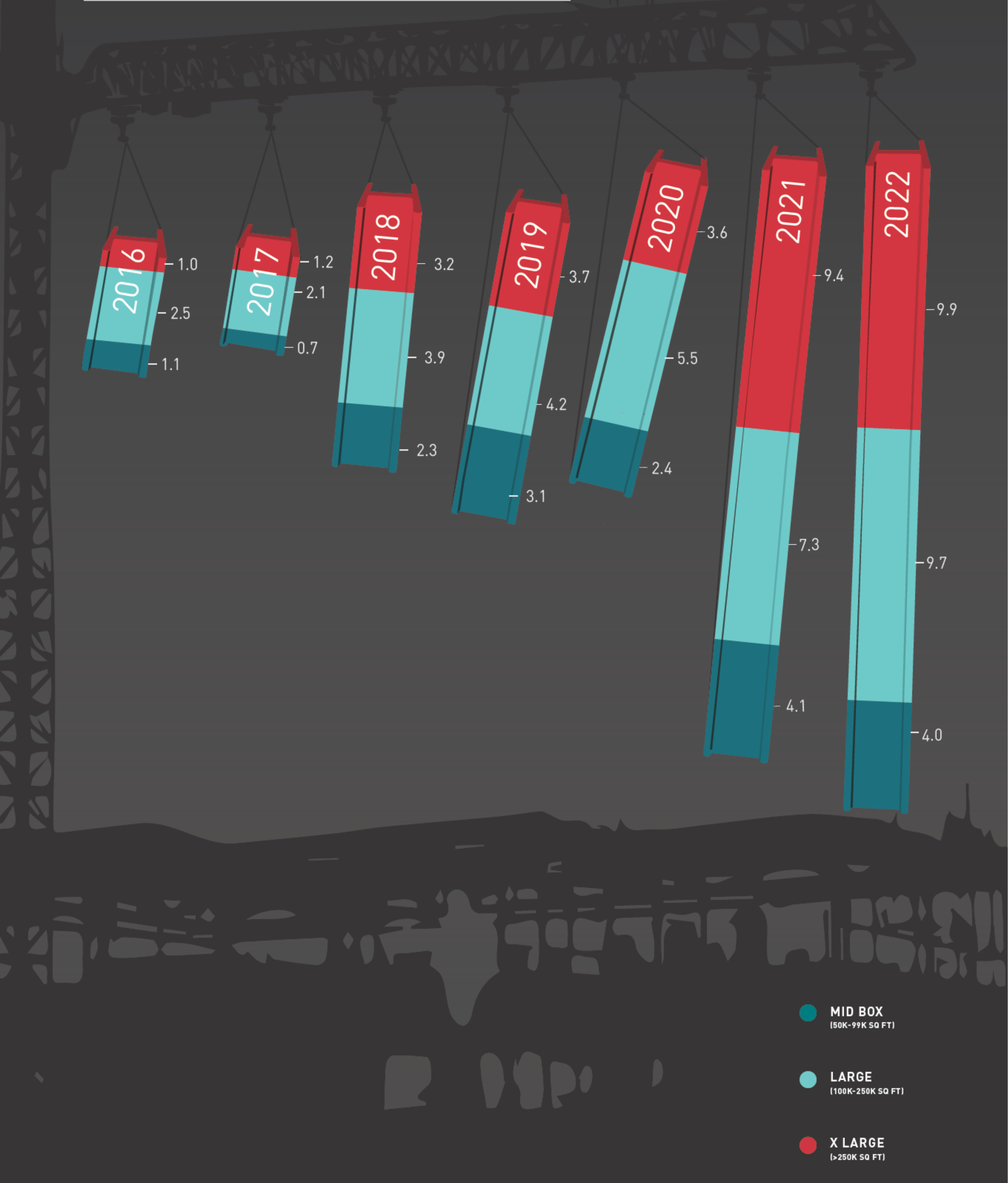
Across all the segments together, Yorkshire & The Humber has caught up with the East Midlands as the main focus of spec development, with both regions now accounting for 20% of the UK's total space under construction. The South West recorded the strongest increase in spec development in 2022, quadrupling to 1.6m sq ft year-on-year, albeit Panattoni's two-unit scheme at Avonmouth by itself accounts for almost 80% of this.

Notably, having long-suffered from an aversion to speculative development, rental growth has

NEW-BUILD AVAILABILITY OF UNITS ABOVE 50,000 SQ FT (M SQ FT)

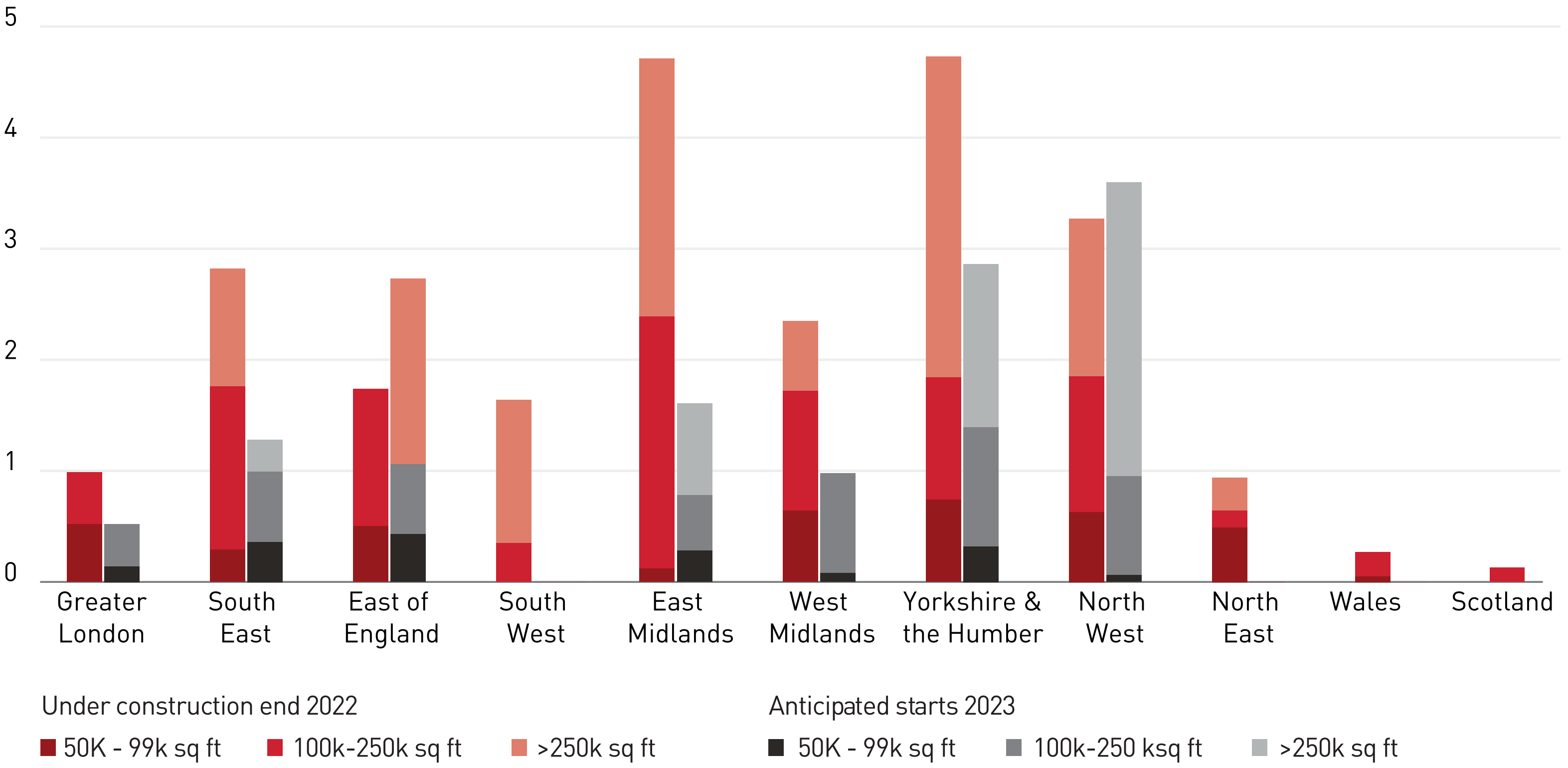


YEAR END SPEC DEVELOPMENT UNDER CONSTRUCTION (M SQ FT)



Source for all data unless stated: LSH Research

SPECULATIVE DEVELOPMENT AND ANTICIPATED STARTS (M SQ FT)



finally spurred development of meaningful scale in Wales. St. Modwen is currently underway on three units at St. Modwen Park Newport totalling 273,745 sq ft, with completion scheduled towards the end of 2023, and North Wales also benefitted from spec development which completed in 2022.

SPEC TO EASE DOWN

Given the more challenging financial market conditions and economic headwinds, the end of 2022 undoubtedly represents the high water mark for speculative development activity. That said, with increasing signs that building cost inflation has reached its peak, and forecasts predicting rental growth to continue, development appetite has not been entirely curtailed.

Our analysis of anticipated spec development starts points to a clear drop in momentum in 2023, with 13.6m sq ft deemed likely come forward within the year. The majority of regions are set to see a reduction in development, with four regions set to see an absence of new starts in 2023. The North West is the only region forecast to see spec development keep pace with 2022 levels, with circa 3.6m sq ft expected to come forward in 2023, the highest of any region.

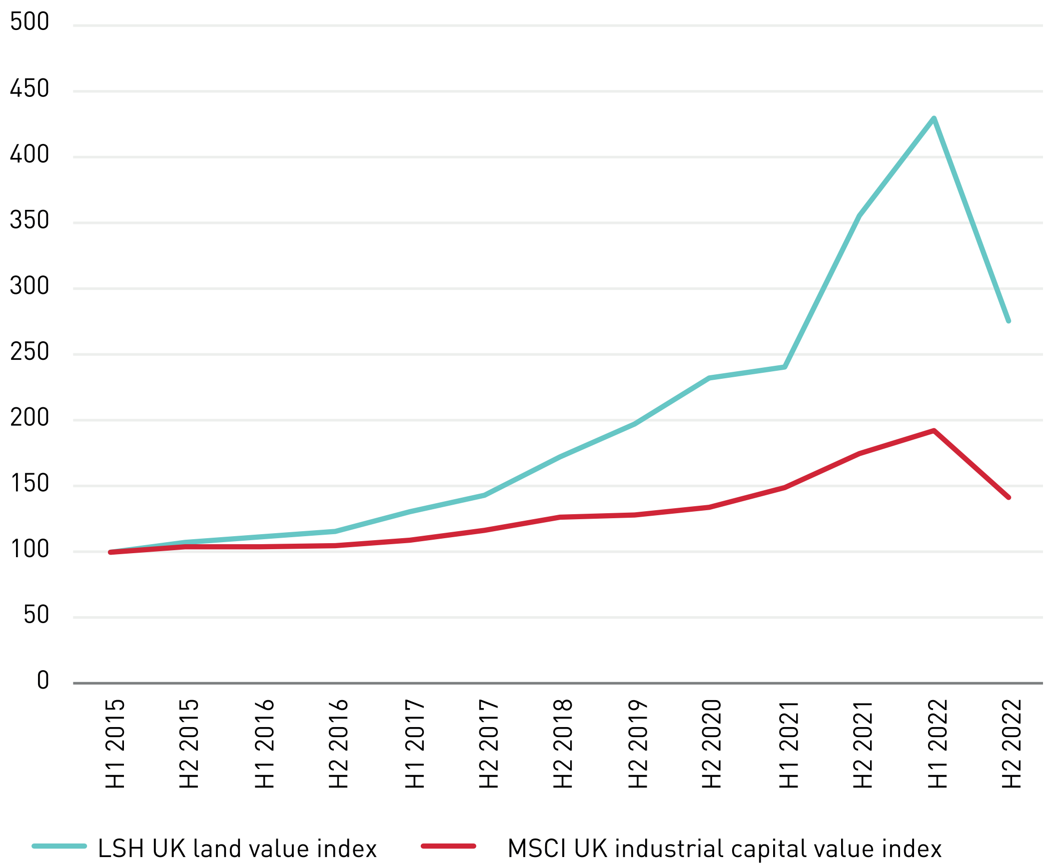
LAND VALUES PLUMMET

The turbulence in the financial markets impacted heavily on land values in the second half of 2022, even more so than capital values. According LSH's UK industrial land value index, prevailing sentiment indicates that average values plummeted by 36% in H2 2022, in the process erasing the growth seen over the previous 12 months.

The impact on values has varied across the 32 markets covered by the index. Prime logistics locations saw the sharpest falls, with Milton Keynes and the East Midlands' logistics heartlands of Derby and Leicester each taking 50% reductions in values in the second half of 2022. In contrast, some of the lower value locations saw much a much shallower impact, with the likes of Newcastle/Gateshead and Swansea, falling by circa 20% year-on-year.

It is important to stress that prevailing land values are largely informed by sentiment as opposed to transactional evidence, which has been extremely thin since the correction unfolded. As the year progresses, and more certainty around interest rates and yields materialises, there may well be a modicum of improvement in land values in a number of key locations by the end of the year.

LAND VALUE INDEX (H1 2015 = 100)

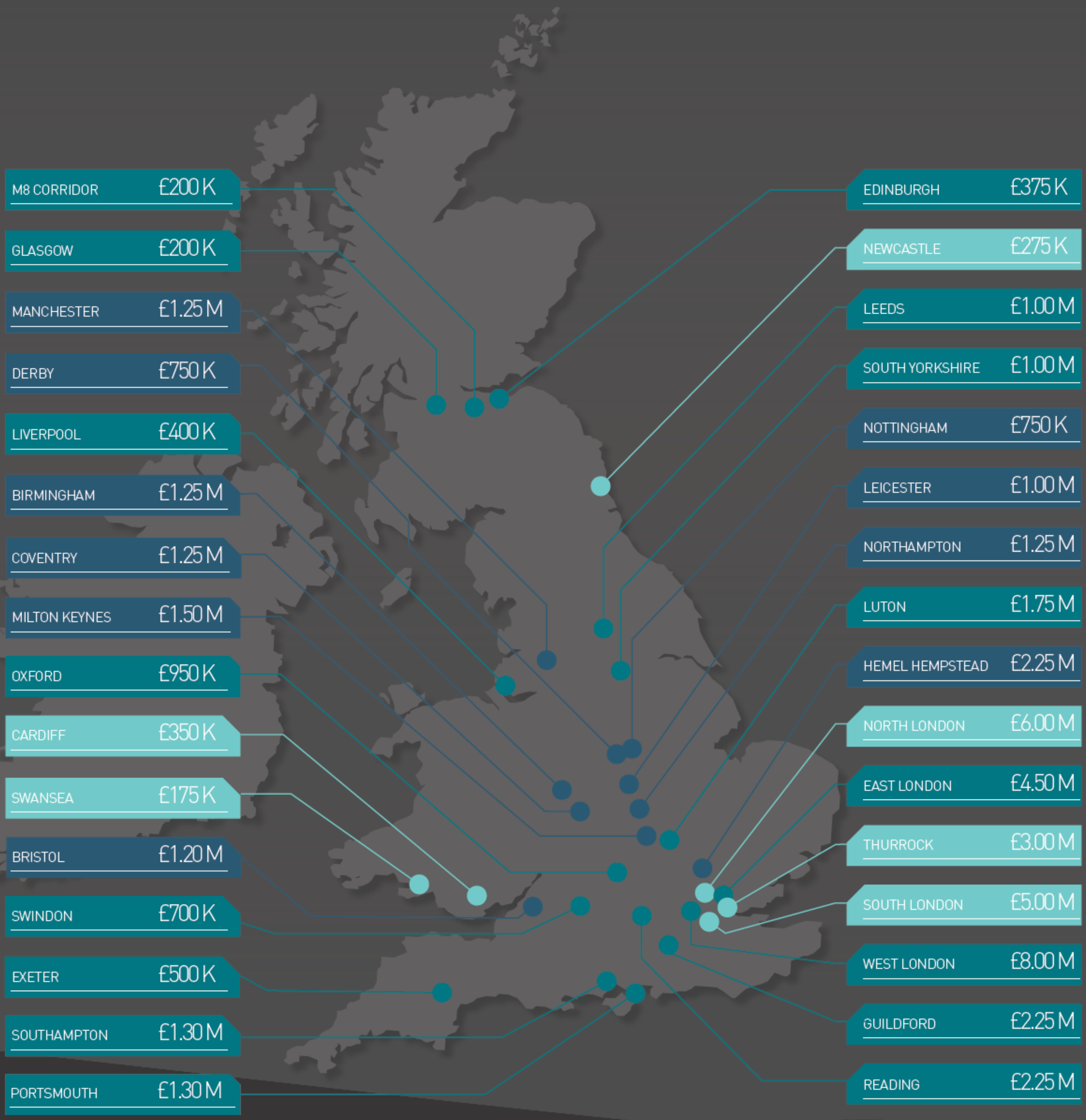


Source: LSH Research, MSCI

END 2022 LAND VALUES

ESTIMATED FALL IN VALUES IN H2 2022

NO CHANGE   < 30% FALL   30% - 40% FALL   > 40% FALL



Land values are quoted on a per acre basis
(reflecting site potential for a minimum of 100,000 sq ft of built stock across one or multiple units)

Source for all data unless stated: LSH Research

LENDING A HAND

[redacted] from Sirius Property Finance assesses the impact of a shifting lending landscape on the market for industrial finance.

CHANGED BACKDROP

The lending environment has changed dramatically over the last twelve months. However, with financial markets stabilising after a period of volatility, enquiries for big ticket lending deals are now coming back. The industrial & logistics sector is still regarded favourably by lenders, but borrowers need to consider a range of new risks and opportunities in the current market.

HIGHER RATES

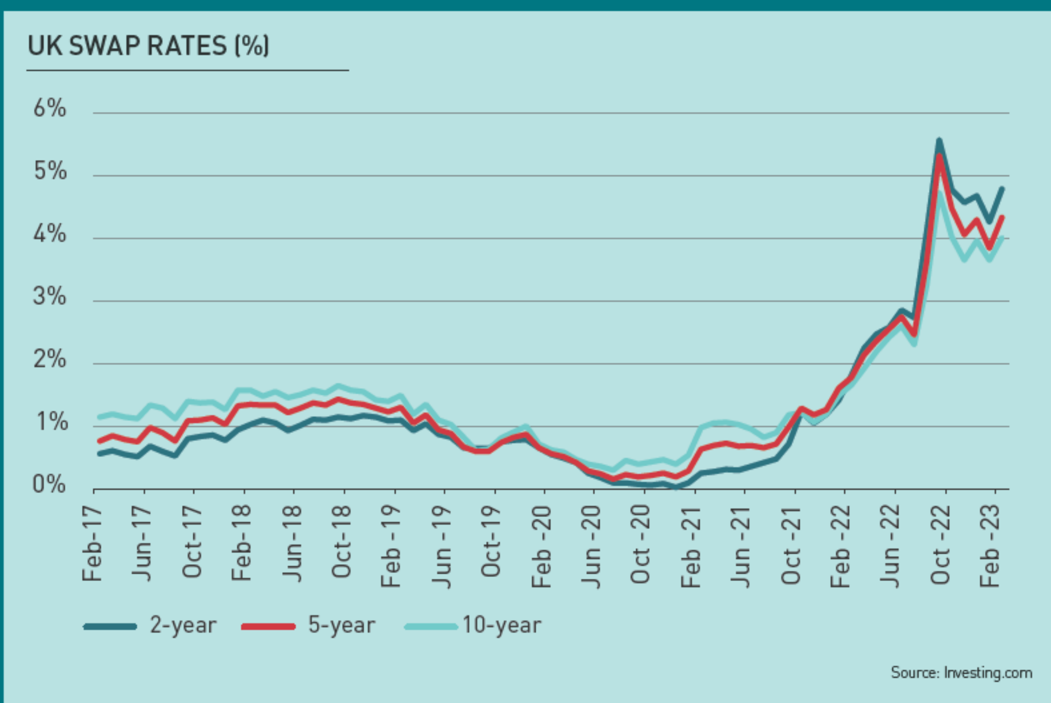
Hikes to the Bank of England base rate and wider financial market volatility have driven huge increases in the cost of 2, 5 and 10-year swaps over the last 12 months. A 5-year swap was priced at c. 4.34% at the end of February 2023, compared with c. 1.79% a year earlier. While this is lower than the peak of c. 5.50% reached in the aftermath of last September's mini budget, it still represents a dramatic shift in pricing.

Rising rates have had a direct impact on the ability of borrowers to service loan repayments, as they have led to significant increases in the overall cost of funds. The total interest rate on a 5-year lending product for a prime industrial asset has risen from a low of c. 2.29% in January 2021 (5-year swap at 0.29% + 2.00% margin) to c. 6.34% in February 2023 (5-year swap at 4.34% + 2.00% margin). This has restricted affordability and forced lenders to exercise greater caution when analysing requests for finance.

SHIFTING TERMS

With longer-term swap rates now lower than short-term rates, there is an argument for sourcing finance options that allow borrowers to fix rates for 10 years. This comes with its own challenges, as lenders need to be comfortable with tenancy risks, lease lengths and expectations for property values at the end of the 10-year period. However, with margins remaining relatively consistent, there could be a cost advantage in acquiring 10-year finance and then holding through the more uncertain market conditions.

For borrowers seeking longer-term finance, lease-concurrent lending may be available, with finance options of 10+ years achievable. The existence of this type of deal is not widely known, but lenders are increasingly prepared to offer this for the right assets with the right tenants.



RETURNS ERODED

The increase in the overall cost of finance has had a direct impact on cash-on-cash returns, particularly for low yielding assets. When all-in finance costs were c. 2.50-3.00%, there was a clear advantage in incorporating finance into an investment purchase. Those who were able to fix for 5-10 years when rates were low are in an advantageous position now.

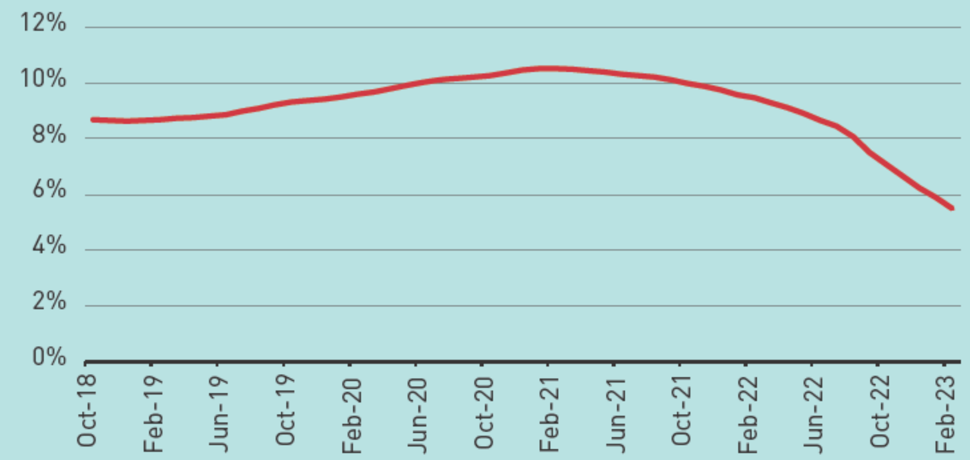
However, with the total cost of finance associated with industrial and logistics properties reaching c. 5.00-6.50%, investors borrowing at these rates will see cash-on-cash returns dramatically eroded by increased interest costs. As reduced leverage is available, purchasers will also need to increase the level of equity invested in deals, further dampening cash-on-cash returns.

We estimate that annualised cash-on-cash returns have close to halved since two years ago. Overseas purchasers with cash-on-cash return targets of c. 8% will no longer be able to source appropriate finance to achieve their aims unless asset prices decrease.

LTVS DOWN

In addition to higher interest rates, lending terms have also been affected by a lowering of LTVs, stemming from lenders' increased perceptions of risk. The easiest way for lenders to accommodate higher risk is to reduce LTV levels across all asset classes, thus limiting their exposure to potential falls in property values and market fluctuations. As a result, we have typically seen LTVs decrease from 70% to 65% in the investment space; and from 80% to 70% in the development finance sector.

CASH ON CASH RETURNS (ANNUAL, %)



Based on a hypothetical £10m purchase with a 65% LTV
Source: Sirius Property Finance/LSH Research

Lower LTVs and higher interest rates will be of particular concern to investors that have opted for variable rate finance, shorter fixed terms, or with finance soon to reach expiry/renewal, as they will not be able to refinance on like-for-like terms.

OPPORTUNITIES FROM DISTRESS

Lower LTVs create specific risks for borrowers needing to refinance. If, for example, a borrower has a loan maturing at 70% leverage, and they can only secure 60% leverage in the current market, there is 10% equity gap that needs to be filled. Given the uncertain market conditions, we have seen lenders become increasingly inflexible and put growing pressure on borrowers to fill the gap.

In these circumstances, borrowers will need to either inject additional equity into the refinancing, or to seek alternative options with another lender. If they are unable to do this, there is a risk that loans will be defaulted.

Borrowers may opt to sell assets quickly at a slight discount to alleviate the pressure placed on them by lenders. As a result, opportunities for distressed asset purchases may be created in the industrial investment market, particularly for secondary and tertiary assets. With higher interest rates more generally putting downward pressure on values, there may be a relatively short window of time during which opportunistic and equity-rich investors are able to take advantage of price reductions and more limited competition for assets.

MARGINS STEADY

While the total cost of funds has greatly increased, lenders' margins have stayed relatively consistent, and industrial investments have continued to attract the most favourable rates from high street banks, challenger banks and institutional lenders. For prime industrial assets, lenders' margins are currently in the 1.75-2.50% range, which compares with 2.25-3.50% for prime offices and 4.00%+ for retail.

This reflects lenders' continued belief that industrial is the most robust commercial property sector, due to strong fundamentals such as tight supply and ongoing rental growth prospects. Other asset types, such as secondary offices and retail are seen as carrying much higher risks for lenders.

Across all sectors, there is a clear movement away from secondary assets, and increased scrutiny is being placed on the liquidity of borrowers, covenant strength, the location and quality of assets and vacancy risks. Lenders are taking a risk-averse approach and considering worst-case scenarios in which they may need to recover loans.

DEVELOPMENT FINANCE RISKS

The rapid growth of industrial development and investment resulted in the asset class being seen as 'bulletproof' by lenders in recent years, particularly in prime locations. Lenders were prepared to offer development finance before tenants were secured, recognising that it could be uneconomical to arrange pre-lets prior to construction when rents were rapidly rising and occupiers were readily available.

However, lenders' attitudes to development finance have now hardened. With take-up slowing, speculative development is seen as carrying higher inherent letting risks and lenders are placing a huge importance on pre-lets and the covenant strength of occupiers entering into pre-let contracts. We are seeing lenders refuse to look at industrial development schemes without a pre-let in place; and the liquidity and experience of borrowers is also playing a key part in lenders' decisions.

A BETTER OUTLOOK

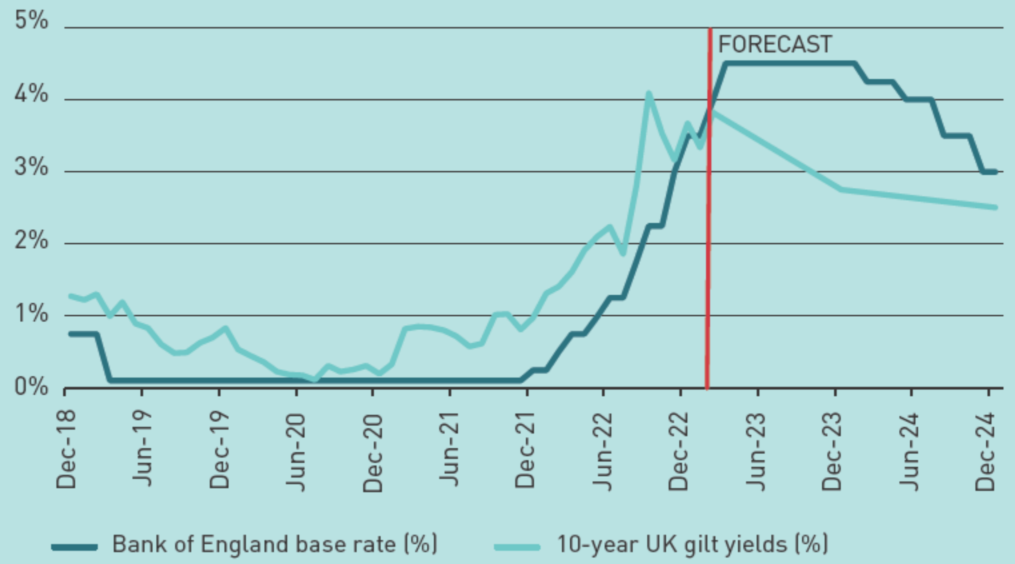
Movements in the Bank of England base rate will play a key role in shaping financial market sentiment over the next 12 months. The market consensus is that the base rate will peak at no higher than 4.50% in H1 2023, and that the Bank will move to cut rates in early 2024.

However, with the outlook for inflation and the wider economy improving, I expect the base rate to come down sooner and faster than the consensus. I believe there is a strong possibility that the base rate will start to move lower in Q4 this year and eventually settle in the 3.00-3.50% range.

A more stable financial backdrop will bring greater certainty to purchasers and developers, and help lenders' perceptions of risk to become more relaxed. Over the coming months, lenders will once again start to consider secondary assets, and take a more pragmatic approach to weaker covenant strengths and less experienced borrowers. Lenders will also become more open to speculative projects, particularly in key logistics locations, and this should kick-start more development activity.

While the lending market has shifted dramatically over the last 12 months, it is now stabilising and we are already beginning to see an increased volume of enquiries coming through from borrowers. It remains a challenging market, particularly for those needing to refinance, but greater certainty and more favourable lending conditions should emerge as the year progresses.

BASE RATE AND GILT YIELD FORECASTS (%)



Source: Bank of England, Investing.com, Capital Economics

ENERGISED INTO ACTION

While extreme volatility in the energy markets has been difficult to manage for many occupiers, the industrial and logistics sector is well-placed to drive innovation in both energy consumption and generation over the years ahead. Here, Stephen Clayton from LSH's ESG team explains how it works.

Solar panel installation on the roof of Unit C at Tritax's Bicester site. The power generated is used by the occupier. Image courtesy of Tritax Big Box REIT.

TOP OF THE AGENDA

Genuine fears of widespread disruption to the UK power grid were averted as much due to luck than political action, with a relatively mild winter, high wind power generation and a healthy supply of LNG shipments arriving into the UK. However, while wholesale prices have fallen back to the levels seen prior to Russia's invasion of Ukraine, energy prices are still three times higher than pre-pandemic levels.

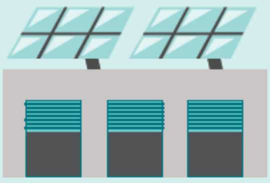
The events of the past year have really underscored the importance of both minimising the risks of power disruption and the need to be better prepared for extreme energy price volatility. Alongside a corporate drive from many occupiers towards meeting sustainability/ESG goals, the recent crisis has catapulted energy security and cost exposure to the top of the businesses' agenda more widely.

INDUSTRIAL SCALE OPPORTUNITY

To address these challenges and contribute to net zero targets, industrial landlords and occupiers are finding innovative ways to reduce their reliance on grid consumption by installing on-site generation and optimising energy use. Due to the physical traits and locations typically associated with industrial logistics property, the sector offers huge scope to reduce energy spend. Moreover, by fully utilising all assets both behind and in front of the meter, it can even generate revenue.

Naturally, solutions and strategies around energy use are specific for each individual business, depending on the nature of its operations and the site in order to maximise return on investment. Here we put forward a number of strategies that can be readily deployed in the sector.

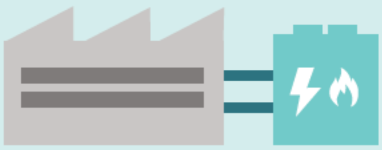
The CHP energy centre at Tritax's Biggleswade site provides an integrated renewable energy solution for a mix of solar panels, battery storage and electric vehicle charging. Image courtesy of Tritax Big Box REIT.



Solar PV and Power Purchase Agreements (PPA)

Industrial and logistics assets normally have an abundance of roof space compared with other asset classes, making it ideal for installing solar PV at scale. The installation can be either be sized to meet the occupier's own demands or deployed across the maximum available surface area to put excess generated energy back into the grid to drive revenue / return on investment.

Power Purchase Agreements provide a means to install PV panels without upfront costs. Essentially, the landlord leases its roof space to the PV installer. The occupier can then consume the PV generated energy and any excess generation is exported and paid to the PV provider via PPA for an agreed fixed period (normally 10 years). After the fixed period, the PV panels are transferred to the landlord to reap the full benefits of the export payments.

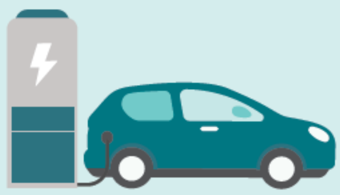


Combined Heat and Power (CHP) plants / Energy Centres

Industrial occupiers that produce excess heat in their operations, such as manufacturers, can recycle that heat into power. This can help to reduce imported energy costs and can even be exported back into the grid at specific times. CHP plants can also be an effective energy security tool that can act as a backup generator to power essential equipment and operations.

Wind Generation via Private Wire PPA.

Some industrial sites may offer scope for installation of a wind turbine which feeds directly into the industrial unit or wider estate via a private wire connection. This means that the energy generated does not attract transmission and distribution charges which normally contribute around 30-40% of the bill. However, building a private wire wind turbine via a PPA developer is a complex process with typical constraints including planning red tape, technical specification and an unwieldy long-term commercial commitment of ten years or more.



Battery storage and electric vehicle batteries

While battery technology has come on leaps and bounds, it is still expensive to install and usually has a life cycle of around 10 years before battery degradation sets in. However, depending on the on-site operations, it could generate considerable revenues or savings by using or exporting battery usage at peak times and charging it at off-peak times or via solar PV. If the operations involve charging an EV fleet, it can also save costs by avoiding Distribution Use of Systems (DUoS) peak time bands.

The wind turbine at Tritax's asset in Avonmouth services the building. Image courtesy of Tritax Big Box REIT.

DEMAND SIDE RESPONSE MARKETS

One key strategy is to take part in the demand-side response (DSR) market. In essence, this is where businesses are financially incentivised to reduce or increase their energy use to provide flexibility to the National Grid, as and when it needs it.

Renewables are making up an ever larger part of the UK power grid's energy mix. However, renewable energy generation is highly intermittent, and the available capacity can switch dramatically from 22GWs to 2GWs depending on levels of wind or sunshine. To balance the grid, demand-side response is activated, and gas turbine generators are utilised to plug shortfalls in capacity.

When a business takes part in demand-side response, where allowing, it will typically turn down or turn off some of key sources of energy consumption during times of high grid use. This will include lighting, air-conditioning, electric heating, pumps and other non-essential equipment.

Some companies are going even further by utilising ALL assets behind and in front of the meter to reduce demand in peak times and get paid for contributing to balancing the grid. This means fully monetising flexible assets such as PV, CHP, battery storage and operational energy through contractors that specialise in demand side response markets called aggregators.

Aggregators have access to a wide range of demand side response markets which can be stacked together depending on the circumstances and have different levels of response times depending on the energy consumption and flexible assets available. They provide a fully managed solution that can be operated 24/7 to optimise revenue opportunities.

Frequency Response – is an ultra-fast response measure to emergency events down to the second. This is usually for sites that can shed load quickly or flexible assets that can support the grid in the event of a power station failure. The National Grid procures a mixture of weekly and monthly ahead tenders to provide both cost saving and revenue generation for applicable businesses.

Balancing Mechanism – is an ad hoc market with no forward commitments with dynamic pricing. Aggregators operate a 24/7/365 trading desk to optimise revenue generation by utilising flexible assets on-site.

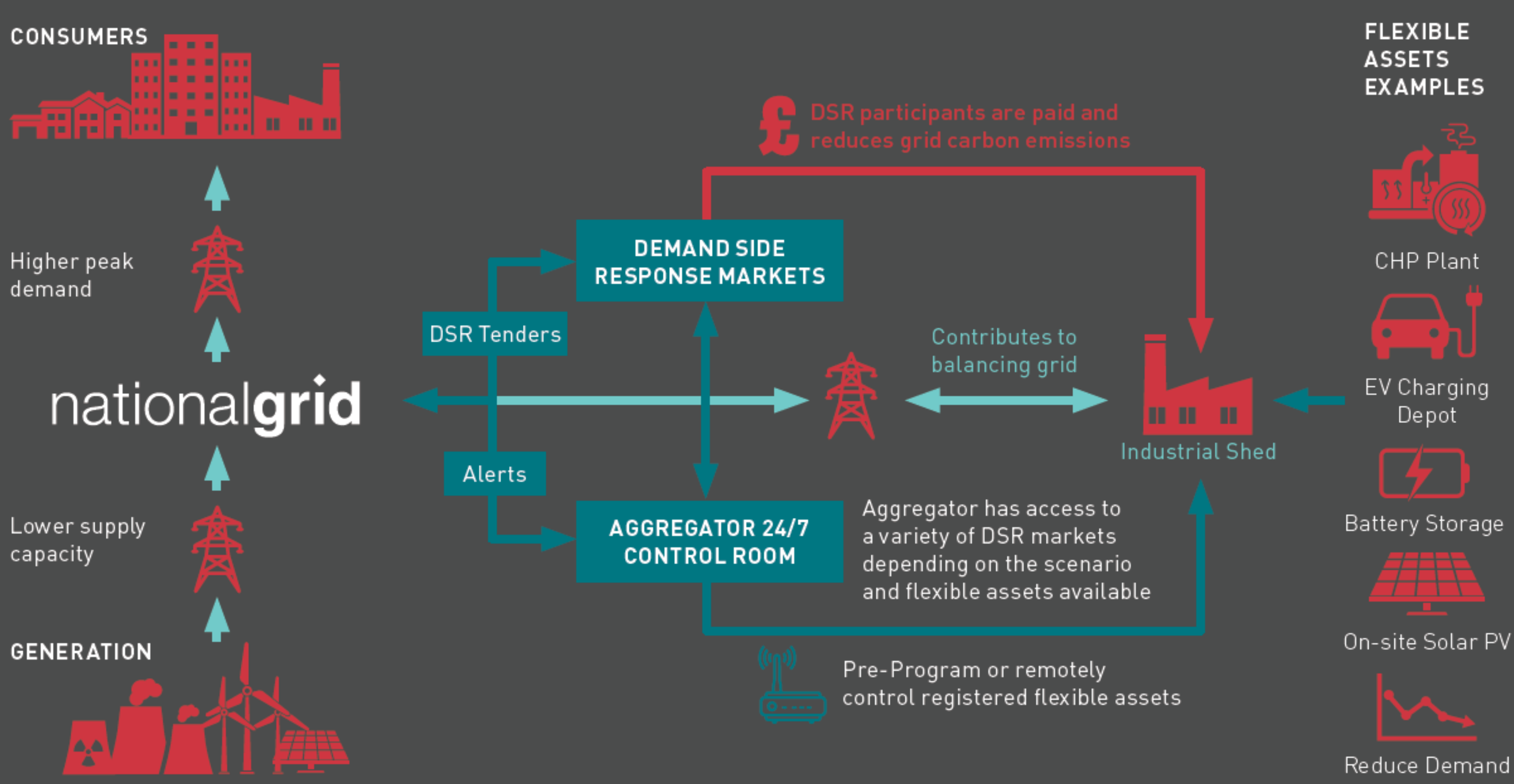
Short-term operating reserve (STOR) – the National Grid sources energy reserves in case of an unexpected event where participants reduce their demand considerably or contribute to energy capacity in a few minutes notice for a couple of hours. These are normally for large consuming sites or portfolios with flexible assets that can collectively be called into action when needed.

Distribution Network Operator Services – are localised balancing measures per region and are open to smaller flexible assets and sites. Can be stacked with other DSR tenders.

Capacity Market – is a government auction for businesses to contribute capacity to the grid in extreme stress events to prevent blackouts at a fixed price and term. It can also be stacked together with other DSR tenders.

A user of a DSR strategy could be, for example, a cold storage warehouse with solar PV and battery storage assets. When the aggregator receives a request from the national grid, it can remotely reduce the compressors to lower the power demand and discharge battery capacity via the balancing mechanism. They are paid the prevailing rate depending on wholesale market fundamentals and grid demand levels. Winter 22-23 saw some utilisation payments reach as much as £3/kWh. On this admittedly extreme basis, a sustained a reduction of 1MW for three hours could potentially generate £9,000.

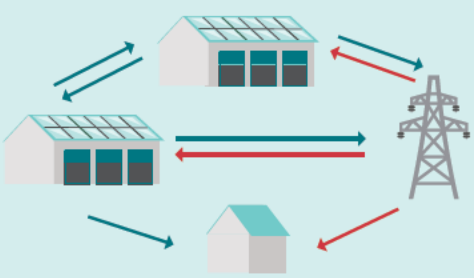
Demand side response in action



FUTURE MARKETS

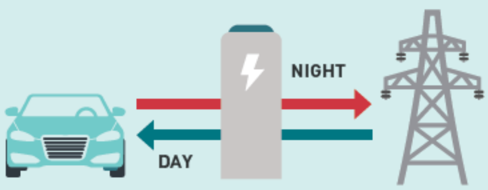
In addition to the above existing approaches, a number of exciting developments in the energy markets are gradually taking shape that will better promote the benefits of micro-generation among users of logistics space. While it remains early days, we can expect Peer to Peer Trading and EV to Grid technology to become more firmly established over the next decade.

Peer to Peer Energy Trading.



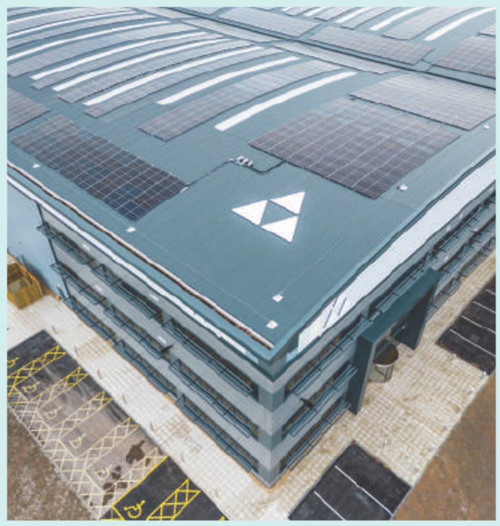
This approach is looking increasingly promising and may start to decentralise the energy landscape. This involves the use of blockchain technology giving access to smaller generators and businesses to directly buy and sell energy without the need for traditional suppliers as middlemen.

Electric Vehicle to Grid (V2G) technology.



With electric vehicles being rapidly adopted into the automotive market, there is a lot of untapped battery capacity which could be used to balance the grid when needed. For a business operating a large fleet of EVs, it can essentially use this as a flexible asset to export power to the grid using the DSR markets.

In summary, with intermittent renewables making up more of the fuel mix, the UK is particularly exposed to wholesale gas prices to make up the shortfall in demand. Incentivising companies to balance the grid will assist the UK to become more energy resilient, especially during times of market uncertainty and volatility. Decentralising energy generation and grid capacity can also contribute to decarbonising the grid with less reliance on gas turbine generators at times of stress.

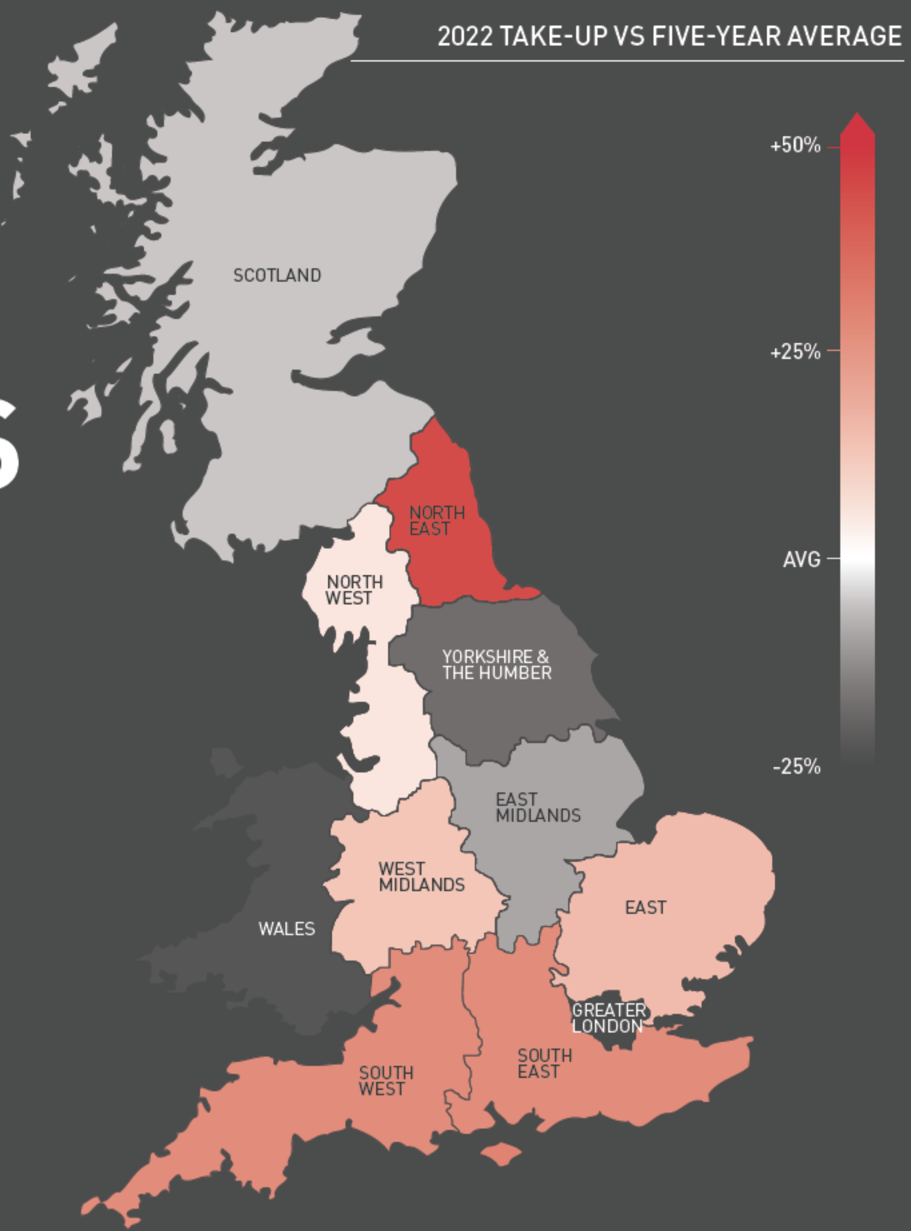


HOW CAN WE HELP?

With innovative technologies and markets on the horizon, the opportunities for industrial assets to reduce energy costs and generate revenue is huge when utilised and coordinated correctly. If you would like more information on renewable installations or introductions to our aggregator partners, please get in touch.

REGIONAL OCCUPIER MARKETS

2022 HIGHLIGHTS



SCOTLAND

- Take-up in 2022 rebounded by 21% y-on-y but was 5% below the annual trend.
- Supply edged up by 28% in 2022 after 12 consecutive years of contraction.
- Spec development sparked prime rental growth, with an average uplift of 9% y-on-y.

NORTH EAST

- Major manufacturing commitments fuelled record annual take-up of 6.1m sq ft.
- This was thanks to several colossal design and build deals to manufacturers in low carbon technologies.
- After a decade-long absence, spec development has returned with 934,000 sq ft under construction.

NORTH WEST

- 2022 take-up was the second strongest annual total on record, but 40% below 2021's high.
- Supply rebounded by 33% from 2021's record low.
- 3.6m sq ft of spec development is underway, and a similar level is expected to come forward in 2023.

WEST MIDLANDS

- 2022 take-up was only 14% below 2021's record and included record grade A take-up.
- Supply fell 13% y-on-y, the sharpest fall of any region.
- Spec development dropped sharply to 2.3m sq ft following 2021's surge to 4.2m sq ft..

WALES

- 2022 take-up was 24% below trend after subdued activity in the larger segments.
- Mid box had a strong year with 2022 take-up 26% above average.
- St. Modwen's multi-unit scheme in Newport marks first meaningful spec activity in South Wales for decades.

YORKSHIRE & THE HUMBER

- The sharpest fall in take-up of any region, down 48% y-on-y.
- Supply increased 72% y-on-y, the largest rise of any region.
- 4.7m sq ft of spec development is under construction, 20% of the UK total.

EAST

- 2022 take-up was 13% above trend but down 12% on 2021's record.
- The Range committed to 1.2m sq ft at Gateway 14, Stowmarket, one of the UK's largest deals in 2022.
- Supply increased 8% y-on-y but remains very tight, equivalent to 0.8 years of average take-up.

SOUTH EAST

- 2022 take-up hit a record 6.1m sq ft, up 8% on 2021's previous peak.
- Uptick in supply was driven by spec development in the XL segment.
- Milton Keynes recorded the most dramatic rise in prime rents of any UK market, increasing 28% y-on-y.

EAST MIDLANDS

- 2022 take-up was 8% below trend due to quieter activity in the larger segments.
- Strong mid box take-up of 2.0m sq ft was narrowly short of 2021's record.
- Substantial spec development helped supply to recover from 2021's record low.

GREATER LONDON

- 2022 take-up was 25% below average with activity notably quiet in the XL segment.
- Supply is equivalent to 1.7 years of average take-up, the highest of any region.
- Average prime rents rose by 17% y-on-y, the strongest growth of any region.

SOUTH WEST

- 2022 take-up rebounded 20% y-on-y, driven by the larger segments.
- One of the few UK regions to see a drop in supply, falling 12% y-on-y.
- Panattoni's mega shed at Avonmouth drove a y-on-y quadrupling of spec development.

Source for all data unless stated: LSH Research

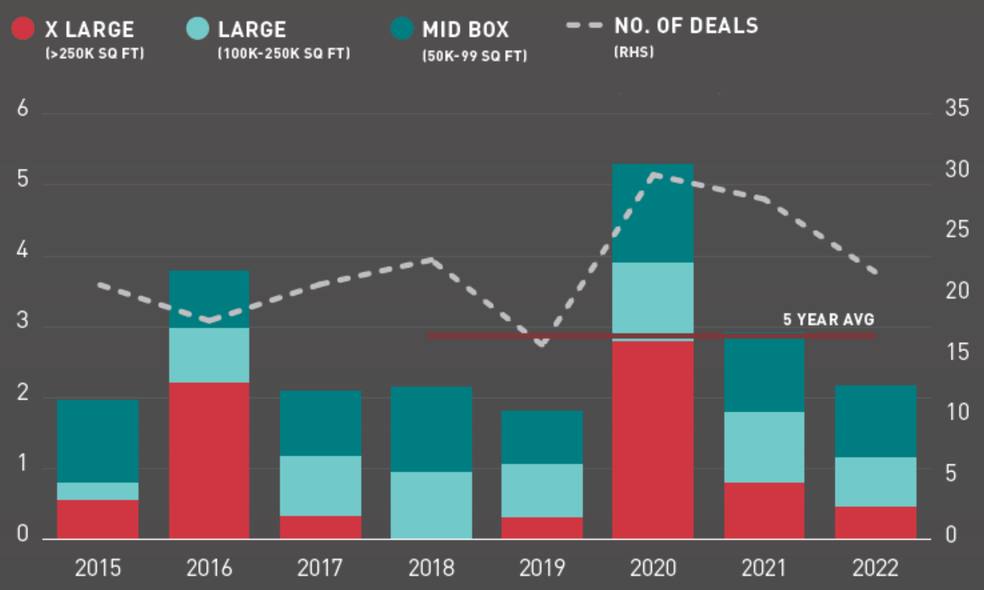
GREATER LONDON

AT A GLANCE

2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
2.2m	-25%	4.7m	1.6	5.1%	991k (11)

SITES, CAMERA, ACTION!

TAKE UP (M SQ FT)

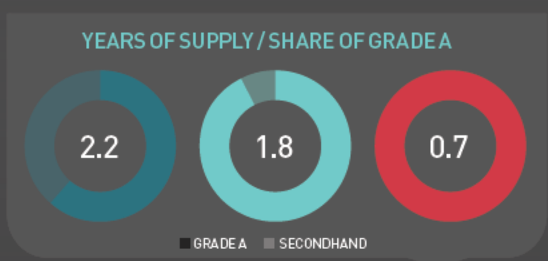


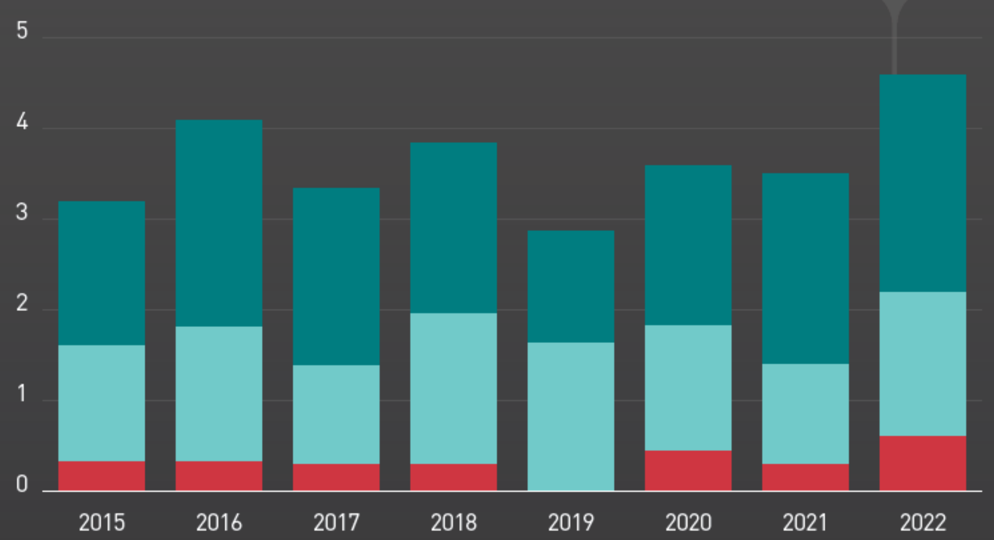
AVAILABILITY BY SIZE (M SQ FT)

X LARGE (>250K SQ FT)

LARGE (100K-250K SQ FT)

MID BOX (50K-99 SQ FT)





DEMAND

Greater London saw solid if unspectacular take-up of 2.2m sq ft in 2022, down 26% on both 2021's total and the annual average. Transaction-wise, 2022 was relatively busy, nonetheless, seeing 24 deals compared with 28 in 2021. The main drag on take-up was limited activity in the XL segment, where take-up was just half the annual trend and comprised only one deal, Amazon Studios' 450,000 sq ft lease at Pinewood's Shepperton Studios.

The large segment saw take-up of 711,000 sq ft, the lowest since 2015 and 22% below the five-year trend. At 1.0m sq ft, mid box take-up was close to the annual trend in 2022 and, as with 2021, secondhand space accounted for the majority of activity in the segment. As above, the burgeoning film & TV sector was also reflected in mid box activity, with Netflix agreeing to lease Unit 1 Segro Park, Hayes (89,000 sq ft) in Q2 2022.

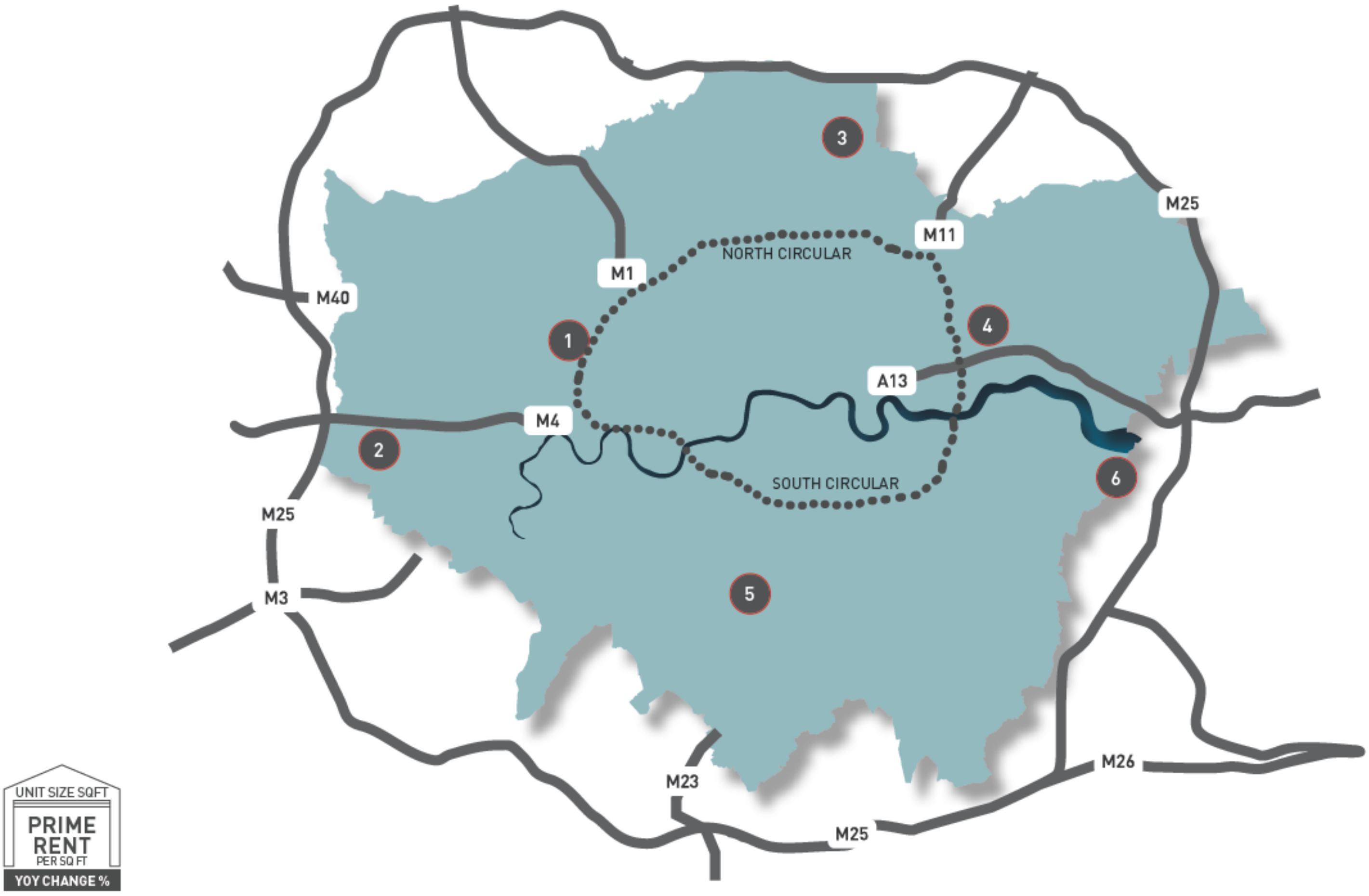
SUPPLY

Greater London supply increased by 37% y-on-y to stand at 4.8m sq ft, its highest level since 2013. As a result, Greater London now has the highest supply of any UK region, equivalent to 1.7 years of average annual take-up and an availability rate of 5.1%. Mid box saw the smallest growth in supply, rising by only 17% to 2.4m sq ft, although this is the most well-supplied of the three segments, equivalent to 2.2 years of average take-up.

The growth in supply is linked to a strong development response in 2021, with circa 2m sq ft of spec schemes completing and available. The largest of these comprise Purfleet 343 (343,000 sq ft) and Powerhouse 300 (300,000 sq ft), located either side of the Dartford Crossing. Speculative development activity has eased back from its 2021 peak, however, with 865,000 sq ft under construction across nine units at the end of 2022, the largest of which comprise units DC5 and DC6 at Prologis Park, Heathrow.

RENTS

On the heels of unprecedented prime rental growth in 2021, growth continued at a strong, albeit reduced rate of 17% on average in 2022. For units of circa 50,000 sq ft, all of London's key locations witnessed double-digit growth in prime rents during 2022, led by another year of exceptional growth in Barking & Dagenham (+24%). Park Royal saw growth of 15%, taking its prime rent to £30.00 per sq ft, by a distance the UK's most expensive industrial market.



1 PARK ROYAL

20K	50K	100K
£32.00 PER SQ FT	£30.00 PER SQ FT	£28.00 PER SQ FT
+14%	+15%	+17%

Despite significant softening of land values, developer interest continues due to the strong supply-demand dynamics. A number of recent lettings have achieved early to mid-£30s per sq ft, a notable example being Classic Fine Foods' 61,611 sq ft lease at PR1, Abbey Road. While some occupiers continue to relocate out of Park Royal in search of more cost effective locations, others out of necessity remain which we expect to maintain appetite for space and sustained pressure on rents in 2023.

2 HEATHROW

20K	50K	100K
£23.50 PER SQ FT	£22.50 PER SQ FT	£21.50 PER SQ FT
+12%	+13%	+13%

A lack of supply continues to weigh on activity, especially anything mid box and above, with land being swallowed up by higher value uses. Positively, a number of units which either have completed or will complete in the near future, including AIPUT's Black Arrow, Evo Industrial's Evo 32, and Orchard Street's Poyle Point, all of which are quoting mid-£20s per sq ft. SEGRO Park Hayes remains a key barometer for the rental tone, with Unit 3 (34,550 sq ft) achieving £24.50 per sq ft and the smallest remaining unit on the development (24,565 sq ft) quoting £31.50 per sq ft.

3 ENFIELD

20K	50K	100K
£25.00 PER SQ FT	£23.00 PER SQ FT	£22.00 PER SQ FT
+14%	+15%	+16%

Demand remains strong, thanks partly to Enfield's lower rental tone in comparison with other London locations and its relative proximity to both Central London and the arterial motorway network. A lack of deliveries maintains upward pressure on rents, with new-build kit units achieving mid-£20s per sq ft. While land values have corrected, the upward trajectory of rents through 2023 will help to maintain viability of new schemes. This will have a knock-on impact on surrounding locations such as Waltham Cross, Borehamwood and even Watford, where supply is equally as constrained.

4 BARKING AND DAGENHAM/ THURROCK

20K	50K	100K
£24.50 PER SQ FT	£23.50 PER SQ FT	£22.50 PER SQ FT
+23%	+24%	+25%

2022 was comparatively quiet compared with the exceptionally busy 2021. DP World London Gateway was rewarded for speculative commitments, with deals to MADE.com, Oasis Group and London City Bond respectively. SEGRO pulled plans for two multi-storey developments at Dagenham in favour of a multi-unit phase of SEGRO Park Rainham, adding even more pipeline supply into the A13 corridor alongside schemes by Valor, HBD/Barings and Firethorn. 2023 will be key to establishing a new rental tone, which has to this point seen investor sentiment move out of kilter with occupier aspirations.

5 CROYDON

20K	50K	100K
£20.50 PER SQ FT	£20.00 PER SQ FT	£19.50 PER SQ FT
+17%	+18%	+18%

Unlike other parts of London, availability rose through 2022 primarily due to Prologis Park Beddington delivering rare scale for the sub-market. This is likely to continue through 2023 at SEGRO Park Croydon, a scheme consisting of two mid box units and a bank of smaller terrace style units promising further rental growth. Several units were taken at the spec-built Prologis Park Beddington, where rents of £19.75 per sq ft have been achieved. GLi's aggressive plans at Croydon and Merton are understood to be in the balance with pre-lets having fallen through leading to a strategy review. Healthy demand and rental growth are anticipated in 2023.

6 DARTFORD

20K	50K	100K
£14.50 PER SQ FT	£13.75 PER SQ FT	£13.25 PER SQ FT
+14%	+17%	+15%

2022's headline was an aggressive entry by Lincoln with its purchase of the 12-acre AG Thames site on Thames Road, fighting off fierce competition at the peak of the market. This is likely to provide the next significant injection of speculative space with consent likely to be granted during 2023. Goodman had success in each half of 2022 with deals completing on Crossways 101 and 137 to Mission Produce and Albion Fine Foods respectively, albeit Crossways 241 remains vacant and is the market's largest void. Wrenbridge secured £13.50 per sq ft on Unit D Dartford X (54,008 sq ft), which is still some way short of the £16.50 per sq ft being quoted at Panattoni's Belvedere Wharf (114,473 sq ft).

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
TILBURY	LG146, LONDON GATEWAY	2022 Q2	146,640	LET (NEW SPEC)	£11.50	LONDON CITY BOND
DARTFORD	CROSSWAYS 137	2022 Q3	137,365	LET (NEW SPEC)	£11.50	ALBION FINE FOODS
TILBURY	LG108, LONDON GATEWAY	2022 Q3	108,973	LET (NEW SPEC)	£11.75	OASIS GROUP
HEATHROW	DC6 PROLOGIS PARK HEATHROW	2022 Q3	101,889	LET (REFURBISHED)	£32.00	VENTIS
TOTTENHAM	UNIT 8, SEGRO PARK TOTTENHAM	2022 Q4	52,070	LET (NEW SPEC)	£26.50	STOCKX

Source for all data unless stated: LSH Research

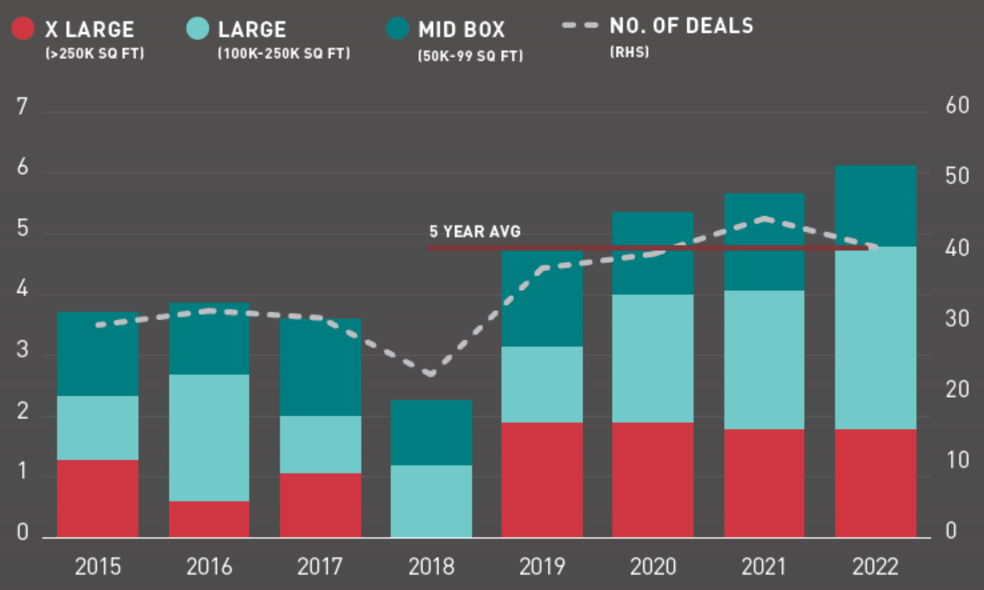
SOUTH EAST

AT A GLANCE

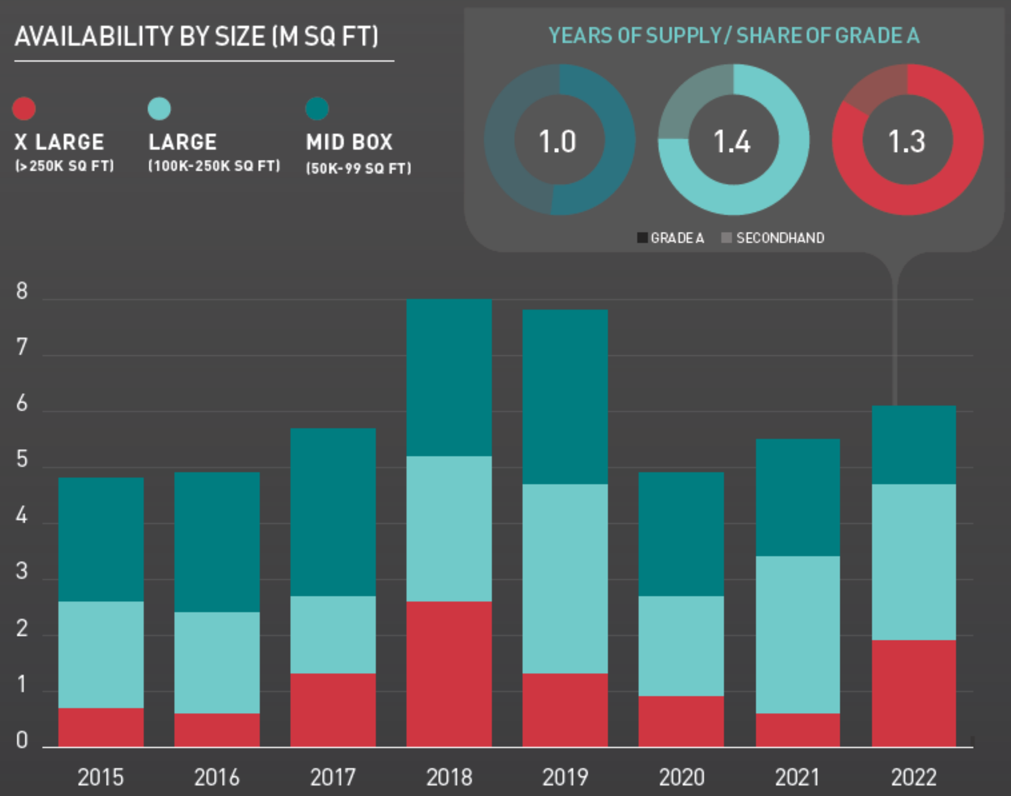
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
6.1m	+26%	6.1m	1.3	3.7%	2.8m (15)

REACHING NEW HEIGHTS

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)



DEMAND

Take-up in the South East soared to a fresh record high of 6.1m sq ft in 2022, surpassing 2021's previous record by 8%. It was also the UK's second best performing region against trend, with take-up 26% above the five-year annual average. While take-up was supported by several deals in the XL segment, two of which involved DHL, the record performance is better explained by an impressive breadth of demand across the market.

Activity in the large segment surged to 3.0m sq ft in 2022, smashing the previous record of 2.3m sq ft in 2021. The broad nature of occupier demand now associated with the region was key, with transactions for parcel carriers and data centre providers supplementing strong activity in more conventional areas such as third party logistics. Meanwhile, having boasted a record year in 2021, activity in the mid box segment was respectable albeit less impressive in 2022, with take-up of 1.4m sq ft standing 2% above the annual trend.

SUPPLY

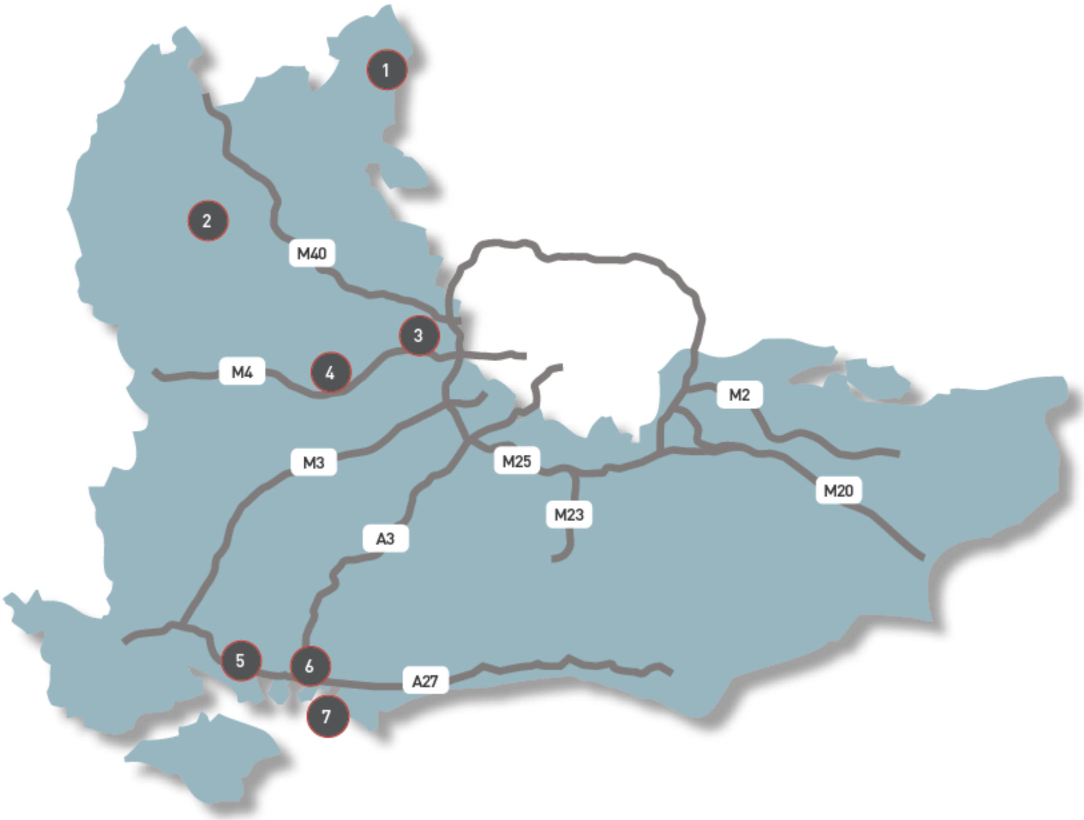
Like many UK regions, the South East saw an uptick in supply during 2022, rising by 12% over the year to 6.1m sq ft and equivalent to 1.3 years of average annual take-up. However, the increase is largely down to a handful of schemes in the XL segment, as opposed to a marked expansion in the number of units available, much of which is accounted for by Panattoni's substantial development at Aylesford 750 (753,000 sq ft), Kent.

Despite the shift in financial conditions, major speculative developments are proceeding. At the end of 2022, 2.8m sq ft of development was underway across 15 units, making up nearly half of total supply. As a result, the make-up of supply has swung heavily towards grade A space, with secondhand space accounting for only 30% of total availability. Milton Keynes is a hive of activity, with PLP and Trammel Crow each proceeding with multi-unit schemes at PLP Logistics Park (909,000 sq ft) and Core MK respectively (292,000 sq ft).

RENTS

The pace of rental growth accelerated across the South East's key markets during 2022. For units of circa 50,000 sq ft, all of the region's eight key markets recorded growth in prime rents in 2022, giving an average annual increase of 15%. Milton Keynes was home to the most dramatic rise, with annual growth of 19% pushing the prime rent to £11.50 per sq ft. Growth was similarly strong for secondary space in 2022, with the eight key markets recording average growth of 14%.

UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %



1 MILTON KEYNES

20K	50K	100K
£11.50 PER SQ FT	£11.50 PER SQ FT	£11.25 PER SQ FT
+18%	+28%	+32%

While secondary stock remains low, Milton Keynes has a significant pipeline of development. Trammel Crow's Core and Equation's Code both complete this year while PLP is expected to deliver 2.2m sq ft over two phases, with the first phase currently under construction. Rents have been pushed on with the above schemes quoting in the range of £11.00 to £13.00 per sq ft, while Tesla's 40,000 sq ft pre-let at Core set a new market benchmark of £13.50 per sq ft. Meanwhile, Kier has purchased a six acre site and submitted planning for a scheme totalling 120,000 sq ft.

2 OXFORD

20K	50K	100K
£13.50 PER SQ FT	£11.00 PER SQ FT	£10.50 PER SQ FT
+13%	+16%	+17%

The Oxon area had a fairly subdued H2 2022 in comparison with an exceptionally busy H1 and late 2021. Nevertheless, demand remained robust for existing secondary units, with key deals including Corndell Furniture at Windrush Park (125,066 sq ft) and Wave Optics at Milton Park (50,513 sq ft). Supply still remains better than most Home Counties locations, with Unit C Symmetry Park, Bicester (270,056 sq ft) and Unit 2 Didcot Quarter (189,834 sq ft) remaining available. With no speculative development planned over the next year, further growth in rental tone is anticipated once these two units are let.

3 SLOUGH

20K	50K	100K
£23.00 PER SQ FT	£22.00 PER SQ FT	£20.50 PER SQ FT
+18%	+19%	+21%

Slough continues to offer a discount to locations closer to Central London, but this is steadily narrowing on the back of strong demand and limited supply. With prime quoting rents moving up the mid-£20s per sq ft, some occupiers are being forced to look further west along the M4 and M3 corridors. Slough remains a key location for data centre-related demand and dominated by SEGRO, which has further increased its holdings in the sub-market, although the shortage of supply and concerns over power capacity are forcing providers to look at alternative locations.

4 READING

20K	50K	100K
£16.50 PER SQ FT	£16.50 PER SQ FT	£15.75 PER SQ FT
+18%	+18%	+17%

Supply remains constrained, particularly for mid box and big box units. Supply is planned at Arlington's Reading International and Panattoni Park, albeit the latter is not likely to complete until 2024. Considerable rental growth in the West London markets is feeding through to locations along the M4 corridor, with Reading and Bracknell seeing prime quoting rents now at £16.00+ and £17.00+ per sq ft respectively. Continued upward pressure on rents is expected through 2023, driven by supply issues on built available stock and occupiers being drawn in from more expensive locations closer to London.

5 SOUTHAMPTON

20K	50K	100K
£12.50 PER SQ FT	£11.00 PER SQ FT	£11.00 PER SQ FT
+19%	+5%	+7%

Circa 300,000 sq ft is scheduled for delivery across three developments in the first half of 2023, namely Adanac North, Nursling; Power Park, Eastleigh; and Penta Park, Southampton. However, given strong demand, each scheme is circa 50% under offer, with headline rents reaching £12.75 per sq ft. Further speculative development is proposed at Salmon Property's scheme at Quest 271 which will provide three warehouse units totalling circa 150,000 sq ft. There are further pre-let opportunities on 30 acres of land across two sites at ABP, namely Marchwood Industrial Park and Redbridge, Southampton.

6 FAREHAM

20K	50K	100K
£11.00 PER SQ FT	£11.00 PER SQ FT	£10.25 PER SQ FT
+2%	+7%	0%

Amazon is vacating its site at Radial 27, Barnes Wallis Road, leaving 71,160 sq ft and close to five acres available. Notably, the quoting rent is now at £11.00 per sq ft, up from £8.75 per sq ft plus the car park in 2019. Units 1 and 2 at Abrdn's Trilogy, Concorde Way have both been let to the same occupier at a rent of £10.25 per sq ft. Notably, rents for these secondary buildings are on a par with those of new builds in the area.

7 PORTSMOUTH

20K	50K	100K
£12.00 PER SQ FT	£10.50 PER SQ FT	£11.00 PER SQ FT
+9%	+2%	+7%

Two developments will achieve practical completion in the first half of 2023, one within the freeport zone at Dunsbury Park which will provide 77,000 sq ft and one at Langstone Park, which comprises four BREEAM Excellent warehouse units totalling 120,000 sq ft. One unit is already under offer, while negotiations are advancing on 75,000 sq ft of the space under construction. Elsewhere, circa 100,000 sq ft of much-needed supply is being brought forward by DTZI with its redevelopment of Unit B, Railway Triangle.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
BICESTER	AXIS J10 LOGISTICS PARK	2022 Q1	1,000,000	PRE-LET (BUILD TO SUIT)	UNDISCLOSED	DHL
BOREHAMWOOD	PANATTONI PARK BOREHAMWOOD	2022 Q3	300,532	CAMPUS LET (NEW SPEC)	£24.50	SKY STUDIOS
MILTON KEYNES	MK220	2022 Q1	220,700	LET (NEW SPEC)	£8.25	ICP LOGISTICS
HAVANT	PROJECT AURORA, NEW LANE	2022 Q3	164,162	PRE-LET (BUILD TO SUIT)	UNDISCLOSED	AMAZON
MILTON KEYNES	UNIT 2 G PARK MILTON KEYNES	2022 Q3	139,914	LET (NEW SPEC)	£9.75	XPO

Source for all data unless stated: LSH Research

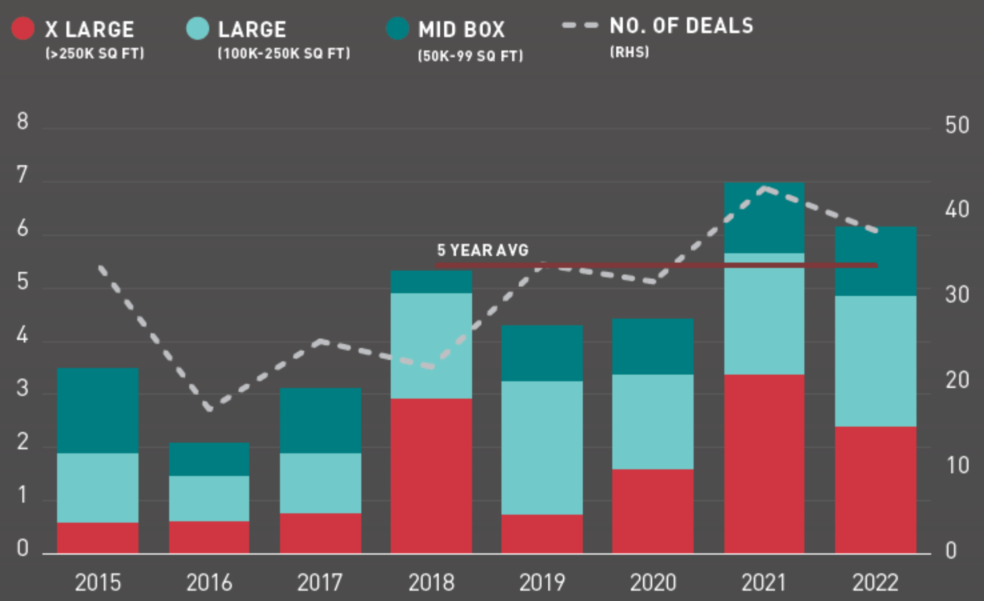
EAST

AT A GLANCE

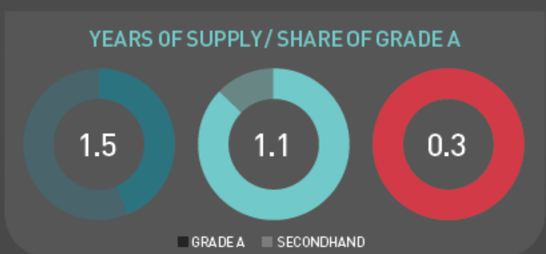
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
6.1m	+13%	4.6m	0.8	2.9%	1.7m (16)

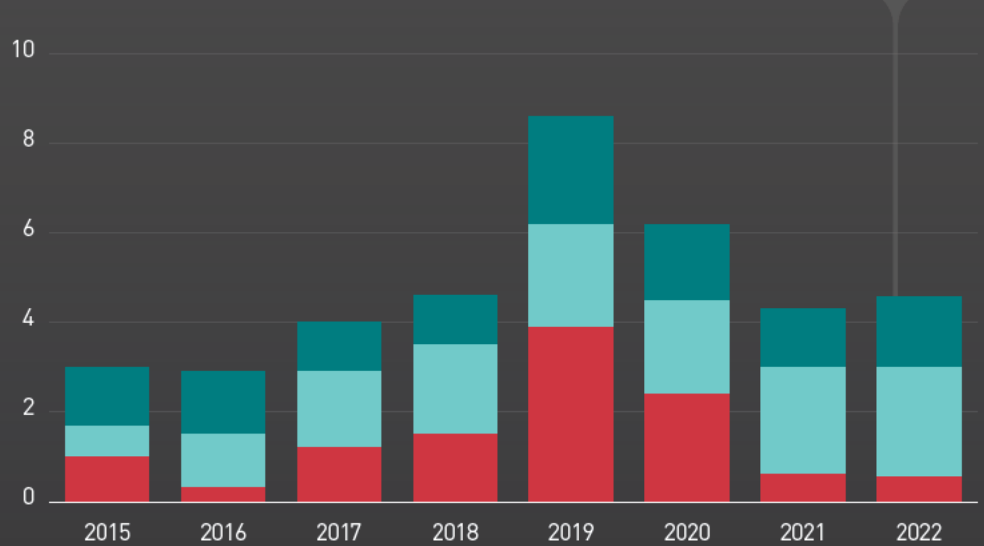
A YEAR OF TWO HALVES

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Take-up amounted to 6.2m sq ft in 2022, down 12% on 2021's record performance, but still 13% above the five-year average. Activity was spilt unevenly across the year – H1 maintained the previous year's momentum with take-up of 4.8m sq ft, the strongest ever half-year total, but this slowed to just 1.4m sq ft in H2. Take-up in H1 was boosted by one of the largest transactions of the year nationally, as retailer The Range committed to 1.2m sq ft at Gateway 14, Stowmarket, within the Freeport East area.

Despite being aided by The Range's deal, XL take-up fell by 29% year-on-year to 2.4m sq ft. This was due to a complete absence of XL transactions in H2, as well as a lack of deals for new speculative space in this size category across the whole year. The large segment was more robust, with take-up rising 8% to 2.5m sq ft, while the mid box figure was only 3% down at 1.3m sq ft.

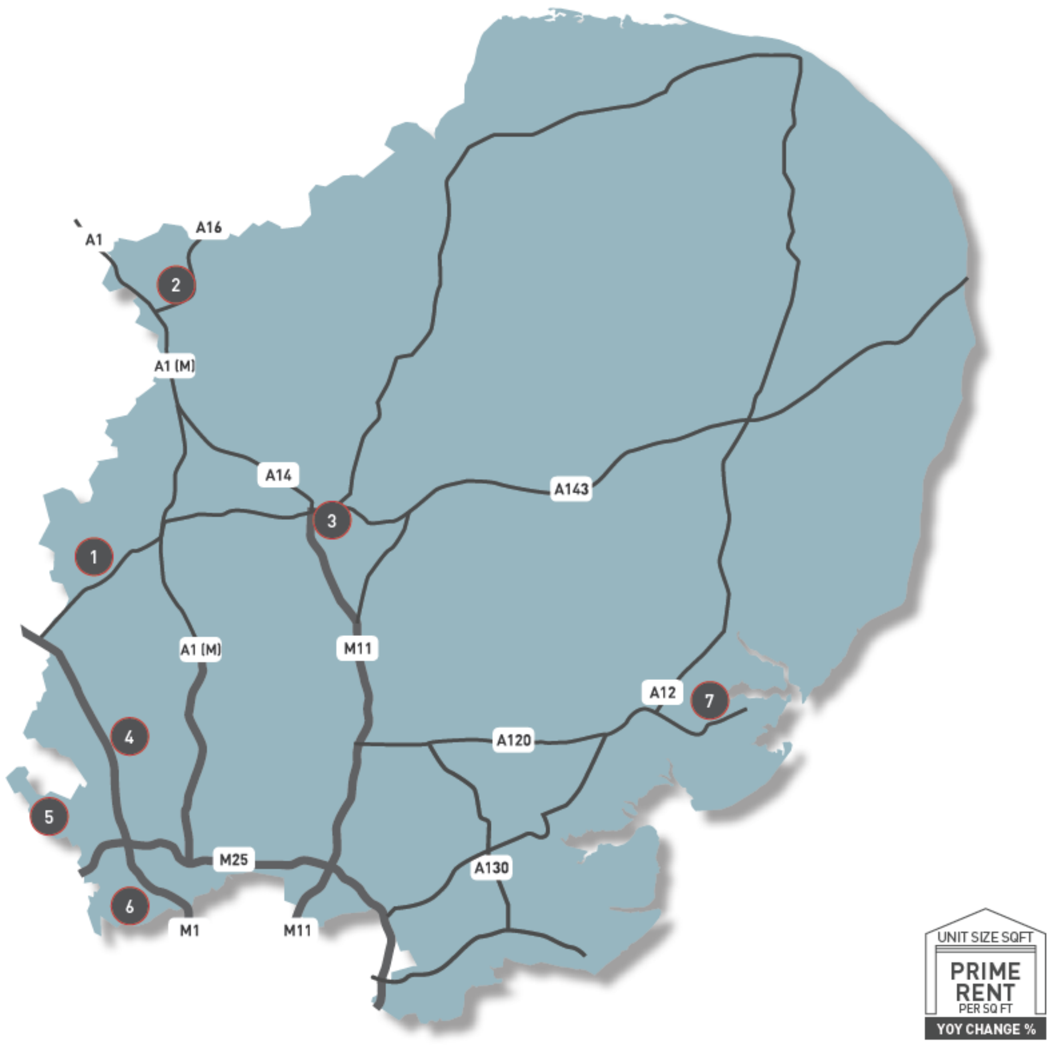
SUPPLY

Availability increased to 4.6m sq ft at the end of 2022, up 8% on a year earlier. However, the region remains very tightly supplied, with this representing just 0.8 years of average take-up. XL supply is particularly limited at just 0.6m sq ft, reflecting a lack of new spec builds at this end of the market. Unit 2 at Junction, Luton (309,794 sq ft) is the only spec XL unit currently under construction across the East.

Availability is slightly less constrained within the large and mid box segments, at 2.5m sq ft and 1.3m sq ft respectively. The large segment mostly comprises new and refurbished space, while mid boxes provide the bulk of the East's secondhand supply. At the end of 2022, 12 spec units were under construction across these two size bands, including multiple units at Curzon de Vere's Port One Logistics Park, a customs site within Freeport East.

RENTS

For units of circa 50,000 sq ft, prime rents increased by an average of 12% across the East's key markets, roughly in line with the national trend. Hemel Hempstead saw the strongest growth, with prime rents leaping by 25% to £16.50 per sq ft. Double-digit rental growth was also recorded in Luton (+14%), Bedford (+13%) and Ipswich/Stowmarket (+13%). Secondary rents increased at a faster pace than the prime figures, rising by a regional average of 16%. Hemel Hempstead again recorded the strongest growth, with secondary rents for 50,000 sq ft units rising by 27%.



1 BEDFORD

20K	50K	100K
£10.00 PER SQ FT	£9.75 PER SQ FT	£9.50 PER SQ FT
+11%	+11%	+12%

Supply of mid box and large segment units in Bedford comprises just a handful of secondary units ranging from 50k to 60k sq ft. This includes units 1 & 2 Hammond Road, which is quoting double digit per sq ft rents following a comprehensive refurbishment and is reportedly under offer. With Phase 2 Symmetry Park, Biggleswade now fully let, planning has been submitted for Phase 3 which will consist of three units totalling 927,000 sq ft. Continued upward pressure on rents is expected in 2023, fuelled by limited supply and by occupiers relocating from elsewhere in search of more cost effective solutions.

2 PETERBOROUGH

20K	50K	100K
£8.75 PER SQ FT	£8.25 PER SQ FT	£8.00 PER SQ FT
+6%	+6%	+10%

Peterborough had a stellar 2022, the headline deal being Crown Holdings' 625,000 sq ft bespoke freehold deal at Trebor's Delta Park (the former Mars Petcare Site). Elsewhere, Firethorn had success at Peterborough South, with two of the three spec units exchanging prior to completion and establishing new record rents. Looking ahead into 2023, supply is likely to be constrained, with the two principal sites (Trebor's Flagship Park and Newlands' Peterborough Gateway extension) both currently some way from commencing. The final unit at Peterborough South is expected to let during H1 and is likely to further push prime rents.

3 CAMBRIDGE

20K	50K
£15.00 PER SQ FT	£14.00 PER SQ FT
+3%	+4%

Cambridge continues to be challenged by a constrained pipeline alongside stiff land use competition from the booming life sciences sector. Trebor's small / mid box Cambridge Gateway achieved a handful of small box deals at rents in excess of £13.00 per sq ft. Newlands' Equites Park Cambridge represents the next large-scale development site and is currently in planning. Less constrained markets nearby continue to perform well. For example, Trebor's 126k sq ft unit at Lightning Park, Huntingdon is understood to be under offer at well over £9.00 per sq ft, while Frontier's Ely Gateway is expected to deliver a further six mid-box units, scheduled for delivery in 2024.

4 LUTON/DUNSTABLE

20K	50K	100K
£13.00 PER SQ FT	£12.50 PER SQ FT	£12.00 PER SQ FT
+13%	+14%	+12%

While built available stock in Luton and Dunstable remains limited, there will be an influx of new supply in the coming years with Prologis and Goodman acquiring the former Vauxhall sites, while Wrenbridge/Morgan Stanley will develop a 37-acre site at 'Junction'. In addition, construction is due to commence on c. 90,000 sq ft at Legal & General's Woodside Industrial Estate, with completion expected in Q3 2023. At the smaller end of the market, Insignia Park in Dunstable has been completed and Holla Houghton Regis is due to complete imminently, with lettings already secured at rents of £12.50-£13.00 per sq ft.

5 HEMEL HEMPSTEAD

20K	50K	100K
£17.00 PER SQ FT	£16.50 PER SQ FT	£16.00 PER SQ FT
+21%	+25%	+25%

While the emergence of assignments and sub-leased units across all size brackets in Hemel is helping to alleviate a chronic lack of supply, stock levels still remain low, especially in the mid box and larger segments. Currently Amazon has 465,000 sq ft available on terms to be agreed, which has skewed the supply figures. Notwithstanding this single option, the lack of supply has meant rent levels remain high and occupiers continue to push further up the M1 in search of more cost effective solutions.

6 WATFORD

20K
£22.50 PER SQ FT
+32%

Watford continues to benefit from occupier migration out of the more expensive London boroughs. However, availability remains low and is constrained by diminished land supply. Watford Borough Council has broken ground on its Inspire scheme at Watford Business Park and Watford Logistics Hub is due to complete in Q2 2024, where rents are guiding in the mid-£20s. Other than these developments, it is not presently clear where future supply can be sourced, and this is likely to translate into continuing upward pressure on what is available.

7 IPSWICH/STOWMARKET

20K	50K	100K
£10.00 PER SQ FT	£9.00 PER SQ FT	£8.00 PER SQ FT
+11%	+13%	+14%

Jaynic is the principal beneficiary in a once unfancied sub-market that now punches above its weight. Onshoring and proximity to the ports continue to drive large-scale demand along the A14, home to stand out deals in 2022 including The Range's 1.2m sq ft freehold commitment at Gateway 14, Stowmarket in Q1 and Greene King's lease at the spec built SP160, Suffolk Park in Q4. Notable successes have attracted further investor interest. In Q3, Trebor committed to a scheme in Ipswich which is expected to capture increased demand for onshoring during 2023 and beyond.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
STOWMARKET	GATEWAY 14	2022 Q2	1,200,000	LAND PURCHASE (BUILD TO SUIT)	UNDISCLOSED	THE RANGE
PETERBOROUGH	DELTA PARK	2022 Q1	625,000	PRE-LET (BUILD TO SUIT)	UNDISCLOSED	CROWN HOLDINGS
PETERBOROUGH	PS241*	2022 Q4	240,830	LET (NEW SPEC)	CONFIDENTIAL	TAYLOR WIMPEY
BIGGLESWADE	UNIT 4, PHASE 2, SYMMETRY PARK	2022 Q4	230,000	LET (NEW SPEC)	£9.00	NOATUM LOGISTICS
BURY ST EDMUNDS	SP 160 SUFFOLK PARK	2022 Q4	160,708	LET (NEW SPEC)	£7.75	GREENE KING

*LSH ACTED FOR THE TENANT

Source for all data unless stated: LSH Research

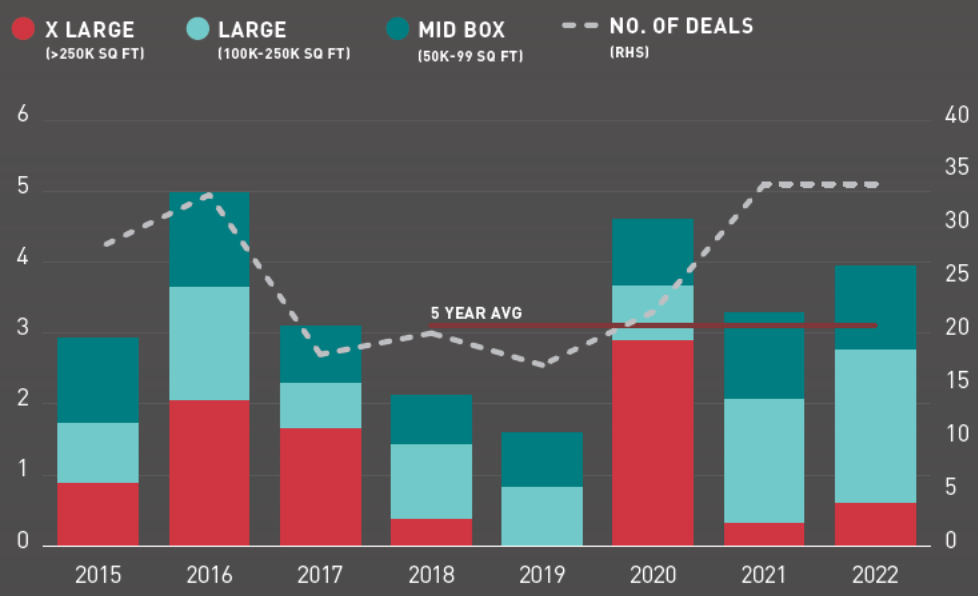
SOUTH WEST

AT A GLANCE

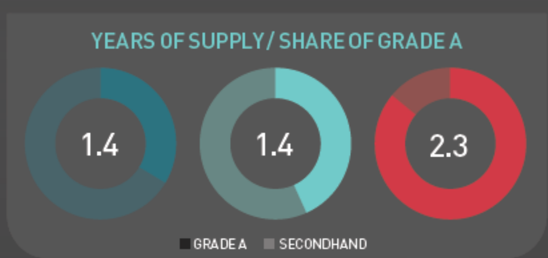
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
3.9m	+27%	5.1m	1.6	4.4%	1.6m (5)

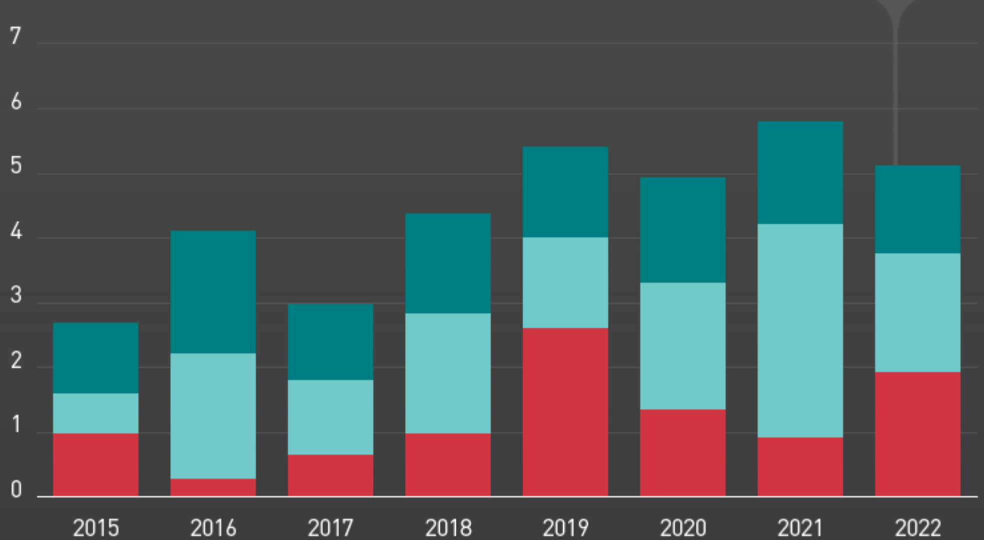
BRISTOL GETS A MEGA SPEC

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

The South West was the best performing UK region against trend in 2022, with take-up of 3.9m sq ft improving by 20% on 2021 and 27% above the five-year trend. However, the year was front-loaded, with circa 70% of take-up and transactions taking place in H1. Secondhand space dominated, accounting for 72% of annual take-up, while 2022 saw only four deals involving brand new space, the largest being ProCook's 167,000 sq ft design and build at St. Modwen Park, Gloucester.

The large segment had its best year on record in 2022, with take-up of 2.2m sq ft substantially eclipsing 2021's previous record. Notably, the Bristol market was relatively quiet in 2022 after a strong showing in 2021. Other locations were home to the year's headline deals, the largest being a confidential buyer's 330,000 sq ft freehold acquisition of the former Argos unit in Bridgwater, while Swindon was the region's hottest area in 2022, home to 10 deals and a third of annual take-up.

SUPPLY

The South West was one of the few UK regions to see a drop in supply during 2022, falling 12% year-on-year to stand at 5.1m sq ft. Despite this, the South West remains comparatively well-supplied overall compared with other regions, with availability equivalent to 1.6 years of average annual take-up. Notably, on the back of strong take-up in 2022, secondhand space now accounts for only 43% of supply, down from 76% in 2021.

While the South West has not really featured in the UK's recent speculative development boom, it is now home to the UK's largest ever spec scheme. Totalling 1.5m sq ft across four schemes, current speculative development is dominated by two units coming forward at Panattoni Park Avonmouth, Bristol, one of which measures a colossal 882,000 sq ft. By itself, this one scheme disguises a more pronounced fall in the region's overall supply, with availability in the large unit segment almost halving year-on-year to 1.8m sq ft.

RENTS

Prime rental growth across the South West's key markets accelerated to an average of 9% in 2022, rising from 6% in 2021 but nonetheless slightly lower than the UK-wide average. Growth has been relatively patchy, however, with the Bristol area seeing the strongest growth by far of any key location, rising by 21% year on year to £10.00 per sq ft. In the secondary market, Exeter saw the strongest growth in rents during 2022, rising by 29% to £9.00 per sq ft.

UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

1 BRISTOL

20K	50K	100K
£12.50 PER SQ FT	£10.00 PER SQ FT	£8.75 PER SQ FT
+9%	+21%	+9%

Total take-up for Bristol was down on 2021 and limited, for the most part, to secondhand space. H2 experienced a pronounced slowdown with the largest deal coming at Unit 3 More + of 63,000 sq ft let to Huboo. Mountpark's Bristol 360 remains the largest standing void. Panattoni's aggressive commitment to purchase Mountpark's Bristol XL at a rumoured £1.2m per acre and subsequent speculative commitment to a two unit (406k sq ft and 882k sq ft) scheme will provide the largest speculative unit under construction in the UK during 2023, seeking to capitalise on the long awaited M49 junction improvements finally set to commence in 2023.

2 SWINDON

20K	50K	100K
£9.50 PER SQ FT	£8.50 PER SQ FT	£8.25 PER SQ FT
+19%	+6%	+10%

All eyes in Swindon are firmly focussed on Panattoni's 370 acre former Honda site, where planning is understood to be imminent on an initial five unit phase of 2.35m sq ft with outline consent for an additional 4.9m sq ft. Elsewhere, a rumoured 180k sq ft pre-let to Yuasa Batteries is expected at the second phase of Canmoor's Ignition scheme. The largest transaction of 2022 saw Panther Logistics lease Logicor's Keypoint 224 at a rumoured £8.15 per sq ft on a 10-year term.

3 PLYMOUTH

20K
£9.00 PER SQ FT
+24%

Supply is constrained and shows limited signs of improving in the short term. The wider region has lost more stock, with Pro:Direct Sport acquiring 208,000 sq ft at Powerpark 38, Newton Abbot in Q3 2022. There is still decent local demand and churn at the smaller end of the market, but local larger occupiers have very limited options to assist with relocation plans.

4 EXETER

20K	50K	100K
£10.50 PER SQ FT	£9.50 PER SQ FT	£8.50 PER SQ FT
+11%	+9%	+6%

Supply levels in Exeter are very low, with limited options in the area fuelling rental growth. There is demand for new units at the smaller end of the market with Skypark Exeter enjoying some success. There is an expectation that 2023 will be the year that Exeter Logistics Park really pushes on as it now offers the only mid to big box stock of note in the area.

5 POOLE/BOURNEMOUTH

20K	50K	100K
£10.50 PER SQ FT	£9.50 PER SQ FT	£9.50 PER SQ FT
0%	0%	+3%

Hermes IM successfully let out their five unit development at Fleets Corner totalling circa 91,000 sq ft with a further 60,000 sq ft of refurbished warehouse space under offer. St. Modwen recently completed Amazon's new 122,000 sq ft purpose-built facility at Sterte Avenue, Poole while Chancerygate's development at Bedrock Ferndown is due to complete in Q1 2023. The spec scheme provides circa 190,000 sq ft across a mix of unit sizes, a number of which are already under offer.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
BRISTOL	TITAN, YATE	2022 Q1	255,686	LET (SECONDHAND)	£6.75	GRAPHIC PACKAGING
SWINDON	KEYPOINT 224, SOUTH MARSTON	2022 Q4	224,465	LET (SECONDHAND)	£8.15	PANTHER LOGISTICS
DEVON	POWERPARK 38	2022 Q3	208,851	FREEHOLD PURCHASE (REFURBISHED)	£52.67	PRO-DIRECT SPORT LTD
SWINDON	SN200	2022 Q1	203,200	LET (SECONDHAND)	£4.00	AMAZON
BRISTOL	HERCULES	2022 Q1	160,000	LET (SECONDHAND)	£7.00	GREGORY DISTRIBUTION

Source for all data unless stated: LSH Research

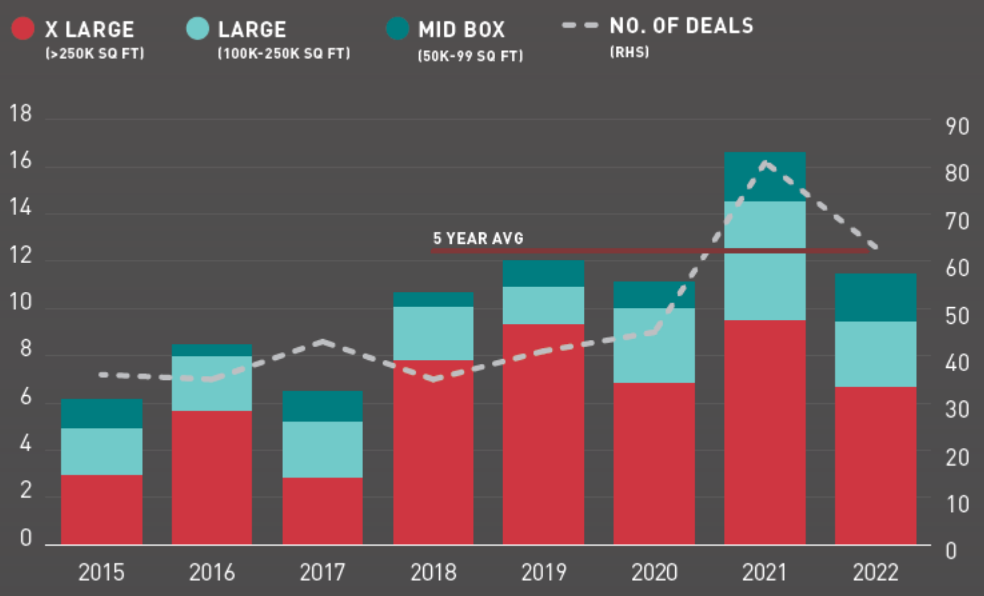
EAST MIDLANDS

AT A GLANCE

2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
11.5m	-8%	11.2m	0.9	4.4%	4.8m (24)

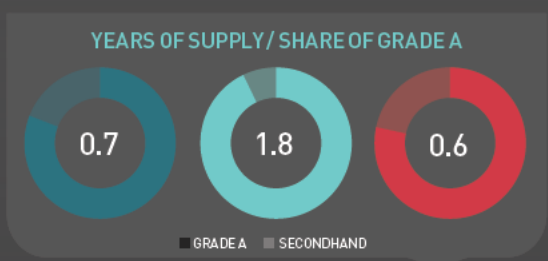
SPEC WAVE DRIVES SUPPLY REBOUND

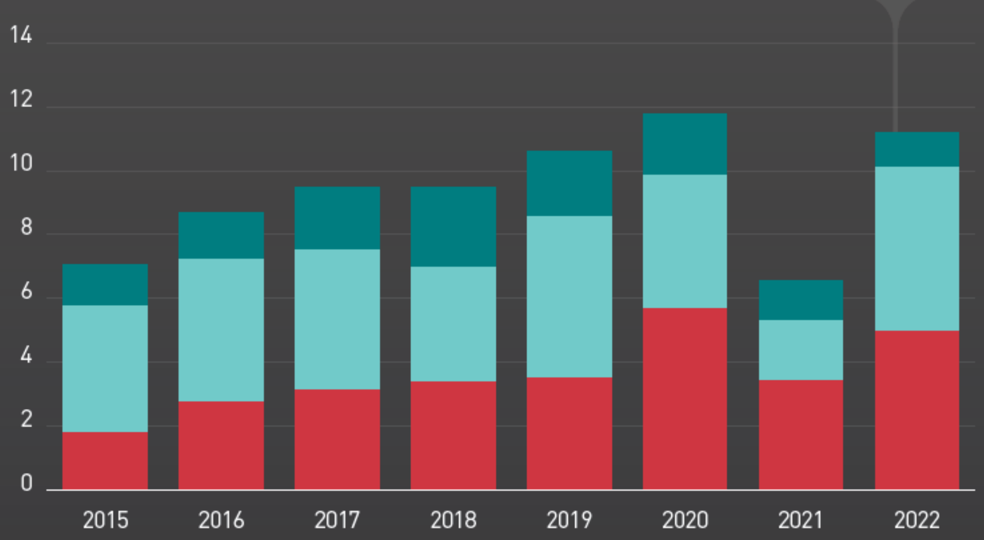
TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)

X LARGE (>250K SQ FT) LARGE (100K-250K SQ FT) MID BOX (50K-99 SQ FT)





DEMAND

At 11.5m sq ft, annual take-up in 2022 was commendable but far removed from 2021's colossal record. While transactional activity was broadly consistent throughout the year, H2 accounted for only a third of annual take-up due to the lower occurrence of major deals. Take-up in the XL segment was 18% below trend but nonetheless saw impressive activity for new spec-built units. 11 of the year's 17 XL deals involved new spec builds, two of which were in excess of 500,000 sq ft, with not a single deal involving secondhand space.

At the other end of the scale, the smaller mid box segment performed best relative to trend, with take-up of 2.0m sq ft falling narrowly short of 2021's record. Close to half of this was accounted for by new spec-built units, including a flurry of deals at Harworth's Bardon Hill development in Coalville, Leicestershire. Despite healthy supply levels, the large segment proved the aberration in 2022, with take-up halving from 2021's record to 2.5m sq ft, 13% below the annual trend.

SUPPLY

A substantial volume of development starts in the earlier part of 2022 have fuelled a marked rebound in supply across the region. At the end of 2022, total supply was 11.2m sq ft, up 71% year-on-year and back into line with previous years. However, the East Midlands remains amongst the UK's tightest regions, with availability equating to only 0.9 years of average annual take-up. Furthermore, even though spec development has eased back, circa 30% of current supply is under construction.

The rebound in overall supply was overwhelmingly led by the large segment, where total availability nearly trebled over 2022 to 5.2m sq ft. Remarkably, reflecting the scale of development appetite over the past two years, 30 of the 33 units available in this segment are new spec builds. In contrast, mid box was the one segment to record a fall in supply during 2022, with total availability falling by 12% on the back of strong take-up to a record low of 1.1m sq ft.

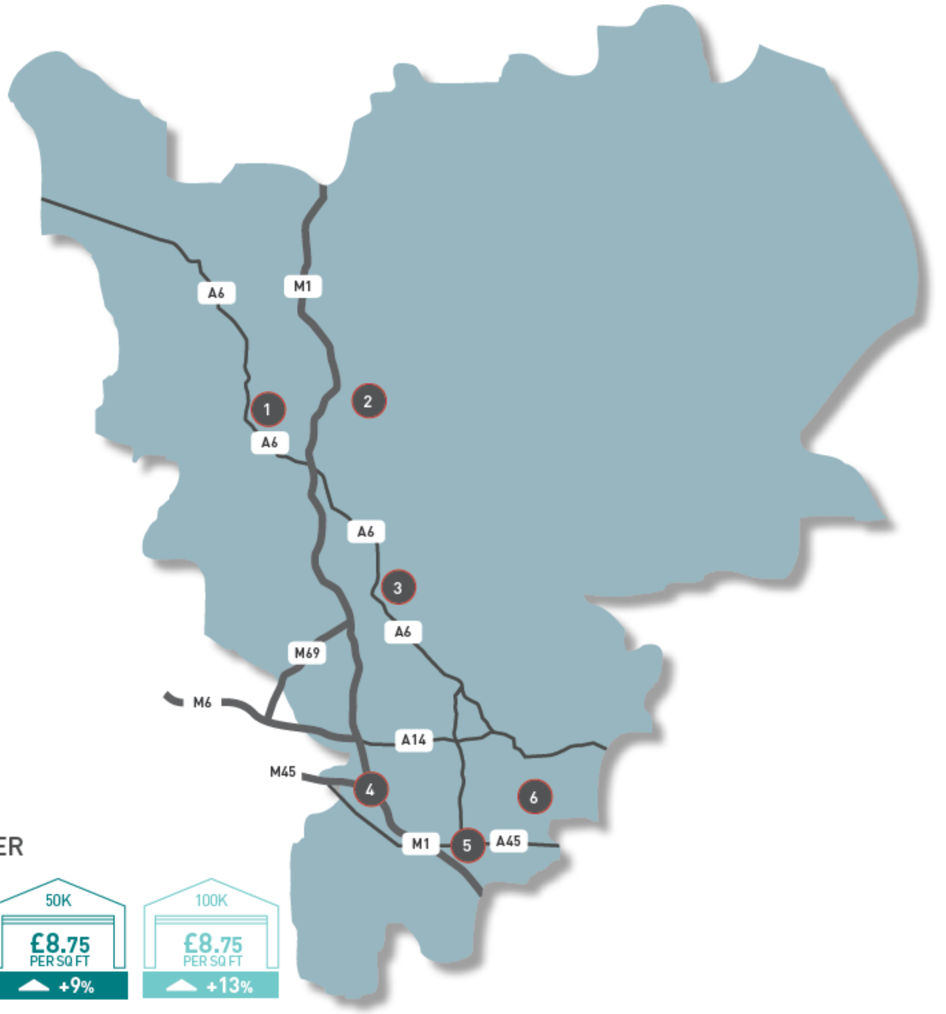
RENTS

While prime rental growth remained strong in 2022, averaging 10% across the region's key markets, it moderated slightly from 2021. For prime units of circa 50,000 sq ft, two of the six key markets saw rental growth in 2022 reaching well into double-digit territory, namely Rugby/Daventry (up 14%) and Derby (up 15%). The moderation in rental growth was more clearly apparent for secondary space, with average growth across the key markets hitting 8% in 2022, down from 22% in 2021.

1 DERBY

20K	50K	100K
£8.25 PER SQ FT	£8.25 PER SQ FT	£8.00 PER SQ FT
+10%	+15%	+15%

ICG's Unit 5 Mercia Park (315k sq ft) is under offer to DSV at a new record rent for the Derby market, at £8.25 per sq ft. Elsewhere, following letting success at Phase 1, Phase 2 of St. Modwen Park Derby is expected to commence spec construction in Q1 2023, comprising c. 350,000 sq ft across four buildings with a guiding rent of £8.50 per sq ft. The sub-market's largest void is Clowes / Hines' DV196 at Dove Valley Park which remains available at the time of writing.



2 NOTTINGHAM

20K	50K	100K
£8.00 PER SQ FT	£8.00 PER SQ FT	£8.00 PER SQ FT
+7%	+10%	+14%

The Nottingham market has seen a big injection of supply, with key schemes including Panattoni's Central M1 345 and Clowes/GLP/NFU's two unit scheme at Castlewood Business Park (134k and 177k sq ft). A further 280k and 190k sq ft is available at NFU/Clowes' EMDC with an additional 340k sq ft committed, while Rula's Fulwood 190 is due in Q2 2023. Premcore is planning a single speculative unit of 370k sq ft at their 17 acre site and Newlands is now seeking pre-lets at its 850k sq ft Equites Park Nottingham. The balance of the Lidl site at Sawley is likely to be marketed in Q1 and will provide an interesting insight into developer appetite and rebased land values.

3 LEICESTER

20K	50K	100K
£9.00 PER SQ FT	£8.75 PER SQ FT	£8.75 PER SQ FT
+9%	+9%	+13%

Prime rental growth has continued at an aggressive pace with secondary rents continuing to benefit. GLP's Magna Park Lutterworth saw further success in 2022 - TVS Supply chain took a combined 468,000 sq ft at a record rent of £8.95 per sq ft in Q4 with quoting rents pushing up to £9.75 per sq ft. Elsewhere, Harworth had success at Bardon Hill with 189,000 sq ft of lettings across three buildings, leaving three units available. IM Properties has commenced spec construction of two units at the balance of Hinckley Park (340,000 sq ft and 47,000 sq ft).

UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

4 RUGBY/ DAVENTRY

20K	50K	100K
£10.25 PER SQ FT	£10.00 PER SQ FT	£9.75 PER SQ FT
+14%	+14%	+15%

Primark is rumoured to be under offer at Prologis' DC628 with keen interest for unit DC327 reported in excess of £9.00 per sq ft. At DIRFT, Eddie Stobart's former HQ is undergoing refurbishment and is likely to transact during H1, while M&S completed at the EV Cargo building (250,000 sq ft). The largest void remained the former Gap building DC660 at Central Park with the refurb now complete and quoting circa £9.75 per sq ft. The major source of pipeline remains Symmetry Park Rugby, with potential to accommodate a further 1.1m sq ft plus expansion.

5 NORTHAMPTON

20K	50K	100K
£9.25 PER SQ FT	£9.00 PER SQ FT	£9.00 PER SQ FT
+9%	+9%	+13%

WT Transport's anticipated lease at Rothbart 133 at a reported £9.00 per sq ft will set a new benchmark for the market and set the tone for 2023. Amazon's colossal fulfillment centre pre-let at SEGRO's Northampton Gateway fell through in Q4 2022 due to rumoured planning issues relating to the railport, leaving a total of c. 5m sq ft of pipeline. Stock remains tight with units BG180, BG163 and part of Active Ant's BG252 Brackmills Gateway providing key options in the market, along with space likely to come back including Brackmills 163 and Hotel Chocolat's rumoured exit from Panattoni's Northampton 430.

6 WELLINGBOROUGH/ KETTERING/ CORBY

20K	50K	100K
£7.75 PER SQ FT	£7.50 PER SQ FT	£7.75 PER SQ FT
+3%	+3%	+11%

Supply is dominated by space under construction and rumoured spec starts, particularly in Corby, where Canmoor's two-unit scheme (178k sq ft and 140k sq ft) and EVO's EVO 170 are expected to deliver during 2023. Prologis' DC334 remains under offer at the time of writing and is expected to exchange in early 2023. Possible spec starts in 2023 include a c. 300,000 sq ft unit at Symmetry Park Kettering and a 535,000 sq ft unit at GLP's Magna Park, Corby, building on the headline grabbing 650,000 sq ft TopHat pre-let in Q2 2022 at an unprecedented rent of £7.95 per sq ft.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
RUGBY	SYMMETRY PARK RUGBY	2022 Q1	1,000,000	PRE-LET CAMPUS	£7.50-£9.10	IRON MOUNTAIN
CORBY	MAGNA PARK CORBY	2022 Q2	690,000	PRE-LET (BUILD TO SUIT)	£7.95	TOPHAT
SWADLINCOTE	TETRON PARK*	2022 Q1	611,558	PRE-LET (BUILD TO SUIT)	£4.35	THE PALLET NETWORK
CORBY	ROCKINGHAM CORBY	2022 Q4	500,000	FREEHOLD PURCHASE (NEW SPEC)	£150.00	CEVA LOGISTICS
DAVENTRY	E1 DIRFT**	2022 Q4	224,245	LET (REFURBISHED)	£9.05	MARKS & SPENCER

*LSH ACTED FOR LANDLORD
**LSH ACTED FOR TENANT

Source for all data unless stated: LSH Research

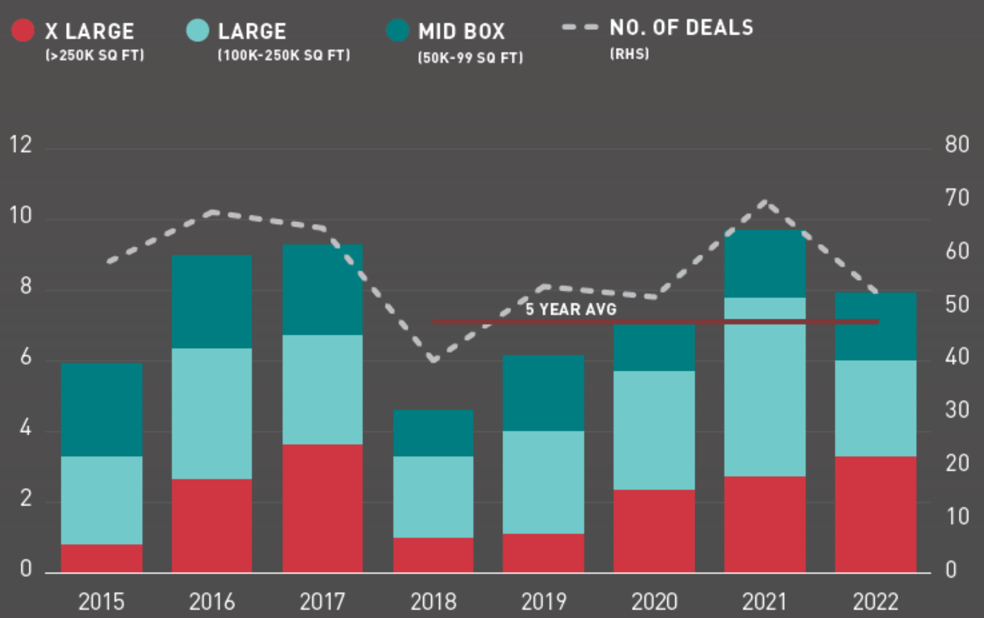
WEST MIDLANDS

AT A GLANCE

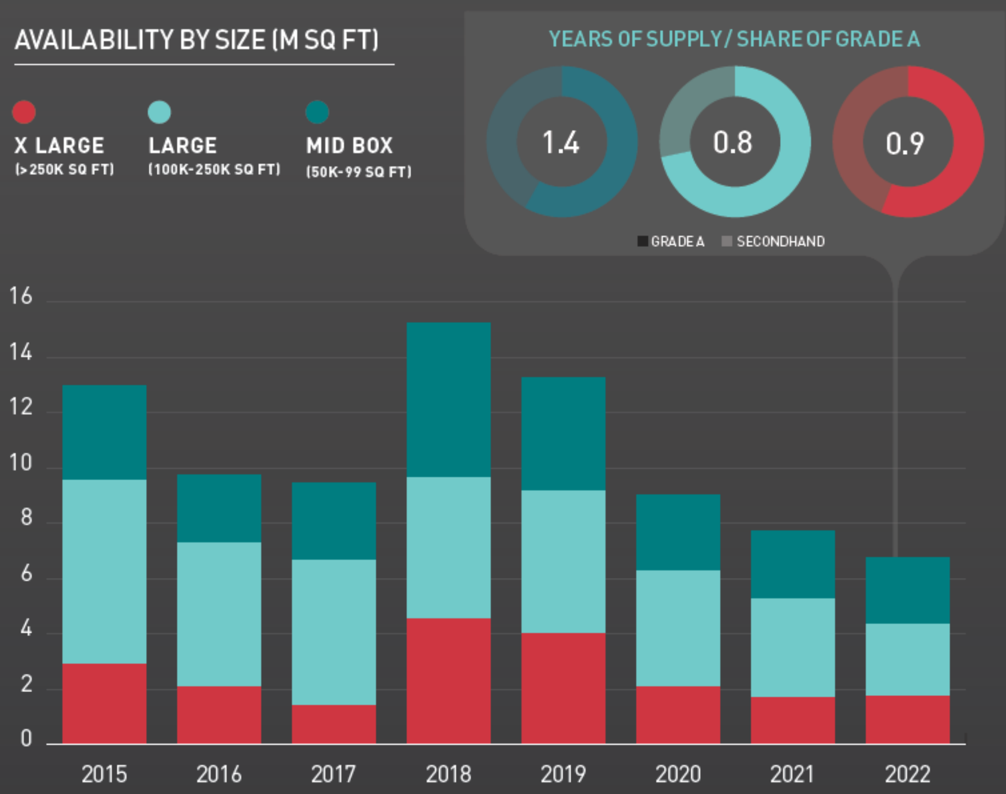
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
7.9m	+12%	6.8m	1.0	2.5%	2.3m (20)

SIZE MATTERS

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)



DEMAND

West Midlands take-up dropped to 8.3m sq ft in 2022, down 14% on 2021 but still 16% above the five-year average. However, there was increased activity at the larger end of the market, with XL unit take-up rising by 22% to 3.3m sq ft. DHL made a major contribution to this by pre-letting 484,000 sq ft at Coventry Logistics Park and 330,770 sq ft at Prologis Park Ryton. In contrast to 2021, when XL take-up was dominated by secondhand space, most of 2022's largest deals involved new spec builds.

The overall decrease in take-up was primarily due to weaker activity in the large segment, where take-up fell by 38% to 3.1m sq ft. Mid box take-up was almost exactly the same as in 2021, at 1.9m sq ft, 10% above the five-year average. A common theme across the size bands was lower take-up of secondhand space, as occupier demand focused on newer units.

SUPPLY

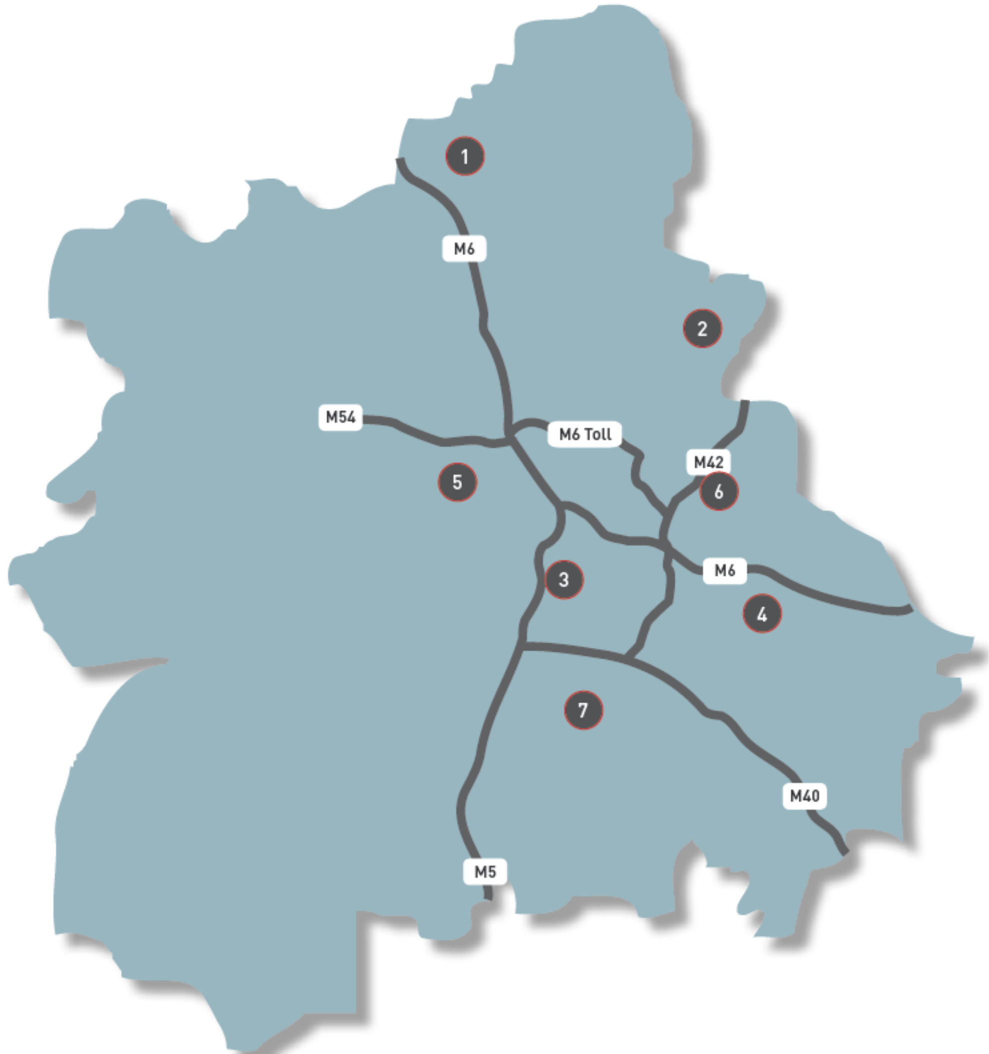
At the end of 2022, total availability across the region stood at 6.8m sq ft, down 13% year-on-year. This represents just 0.9 years of supply, making the West Midlands one of the UK's most tightly supplied regions. XL availability nudged up slightly, by 5% to 1.8m sq ft, but the other two size bands both recorded falls in availability over the year. The region's two largest available units are both secondhand buildings, comprising 409,042 sq ft at Britannia Business Park, Kidderminster, and 369,608 sq ft at Prologis Park Midpoint.

At the end of 2022, 2.3m sq ft of speculative space was under construction in 20 units. This is down sharply compared with the end of 2021, when a surge of development saw 4.2m sq ft of speculative space underway, but much of this has now come through the pipeline and been let. At the year-end, the largest available speculative units were Ergo 354 (353,888 sq ft) in Fradley, and PLP Stafford (344,478 sq ft) which is due for completion in Q2 2023.

RENTS

For units of circa 50,000 sq ft, prime rents grew 15% on average across the region's key markets. Growth was led by Birmingham, where rents leapt by 21% to £10.25 per sq ft. Coventry and Burton upon Trent also recorded step-changes in prime rents, with growth of 20% and 15% respectively. However, prime rents edged up by a more modest 4% in Stoke-on-Trent. All of the key markets also recorded growth in secondary rents, albeit by a much more modest regional average of 6% for 50,000 sq ft units.

UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %



1 STOKE-ON-TRENT

20K	50K	100K
£7.25 PER SQ FT	£7.00 PER SQ FT	£6.75 PER SQ FT
▲ +4%	▲ +4%	▲ +4%

While Stoke is historically regarded as a relatively cheap location in comparison with the wider West Midlands, rents are rising steadily on the back of low supply levels. St. Modwen continues to provide the bulk of the new build supply in this market, with two units of 51,000 & 53,000 sq ft currently available. Elsewhere, PLP's 344k sq ft spec unit at PLP Stafford is understood to have strong pre-let interest at c. £8.00 per sq ft and is expected to complete in Q2 2023.

2 BURTON UPON TRENT

20K	50K	100K
£8.00 PER SQ FT	£8.00 PER SQ FT	£7.75 PER SQ FT
▲ +10%	▲ +15%	▲ +15%

Burton saw strong take-up in H2 2022, with all three units at Equation's Quintus scheme being let to Werner, CEVA and Syncreon. St. Modwen has moved to fill the void in the local supply with the speculative development of Phase 4 at St. Modwen Park Burton, comprising four units ranging from 38,000 to 179,000 sq ft, which are expected in Q4 2023. Gousto has paused on its pre-let bespoke temperature controlled 300,000 sq ft unit at St. Modwen Park Burton, and this is likely to be marketed in Q1 2023.

3 BIRMINGHAM

20K	50K	100K
£10.25 PER SQ FT	£10.25 PER SQ FT	£9.25 PER SQ FT
▲ +17%	▲ +21%	▲ +23%

Birmingham continues to see strong occupier demand and this, combined with low stock levels, has driven strong rental growth. This was evidenced by Prologis achieving record rents for the sub-market of £10.00 per sq ft at Hams Hall with its letting of DC4 to AMG Logistics in July 2022. Availability is confined to only a couple of units, one of which is St. Modwen's speculative development of Longbridge 155 (155,000 sq ft). Britishvolt's high profile commitment to a gigafactory at Hams Hall now appears in doubt following their administration, and is likely to free up a further 259k sq ft. Similarly record land deals fell through in Q4 with the market seeking to establish pricing correction. Positively, Hermes' Erdington 100 scheme is expected to come forward speculatively.

4 COVENTRY

20K	50K	100K
£9.50 PER SQ FT	£9.00 PER SQ FT	£8.75 PER SQ FT
▲ +19%	▲ +20%	▲ +17%

Coventry has seen strong occupier demand with voids remaining at record low levels. New space has been readily absorbed, with Bericote's 785k sq ft Coventry Logistics Park fully let shortly after completion with high profile deals to DHL, Geodis and Viad establishing new record rents. The shortage of space has resulted in large pre-let commitments such as Rhenus taking Baytree's 980k sq ft two-unit Nuneaton development, in addition to DHL's 300k sq ft commitment at SLP Coventry Gateway. Elsewhere, Goldman Sachs has completed funding on the balance of Ansty Park (856k sq ft across four units), with two units totalling 340k sq ft at SLP Coventry Gateway due to complete in Q4.

5 WOLVERHAMPTON

In the context of a lack of deliveries at the larger end of the market, Wolverhampton has seen reasonably strong take-up in the mid box bracket with Barberry 55, Wednesfield (55,000 sq ft) being let before practical completion and DPD taking a further 58k sq ft at Revolution Park in Q2. Barberry also forward sold its three-unit 225k sq ft scheme Wolfpack at Hilton Cross. Canmoor and IPIF have moved to take advantage of the strong demand with the speculative development of two units of 42,000 and 70,000 sq ft at Mammoth Drive providing further mid box supply into 2023.

6 TAMWORTH

The Tamworth market is constrained by a severe lack of supply, with regard to both new build and secondary space. As a result, take-up has been weak compared with previous years despite strong latent occupier demand. The sole unit available comprises IM properties' speculative development of a single mid box unit at Plot 7 Mercia Park, with completion expected in early 2023. Panattoni's Tamworth 345 let to Maersk in Q1 at £7.75 per sq ft, which represented the transactional highlight of 2022.

7 REDDITCH/ WORCESTER

With its proximity to the M5 providing ready access to both Birmingham and the South West, Worcester remains an area with strong growth opportunities, benefitting from a considerable rental discount to both of these markets. Stoford remains committed to the sub-market and is positioned to capitalise on this demand with the speculative development of Cabot 38 at Worcester 6, in addition to its scheme at Redditch Gateway comprising two units of 160,000 sq ft and 286,000 sq ft.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
NUNEATEN	UNIT 2 BAYTREE NUNEATEN	2022 Q3	750,000	LET (NEW SPEC)	£7.50	RHENUS LOGISTICS
COVENTRY	SEGRO PARK COVENTRY	2022 Q3	300,000	PRE-LET (BUILD TO SUIT)	£8.50	DHL
COVENTRY	UNIT 2 COVENTRY LOGISTICS PARK	2022 Q3	251,488	LET (NEW SPEC)	£8.75	GEODIS
WILLENHALL	W246 WILLENHALL*	2022 Q3	246,973	LET (SECONDHAND)	£8.00	DREAMS
COVENTRY	DC4 PROLOGIS PARK RYTON	2022 Q4	165,200	LET (REFURBISHED)	£9.50	DHL EXPRESS

*LSH ACTED FOR LANDLORD

Source for all data unless stated: LSH Research

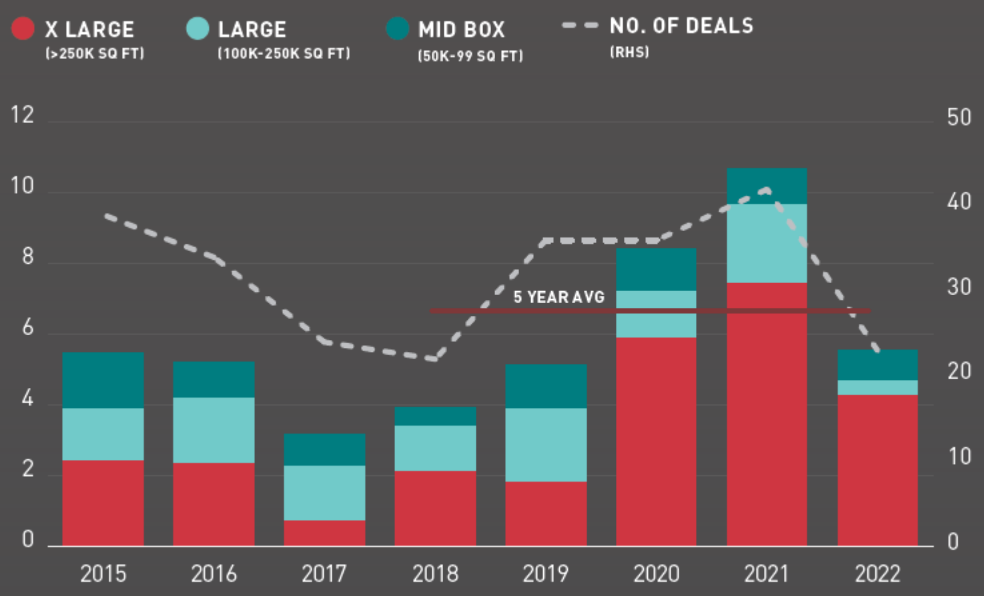
YORKSHIRE & THE HUMBER

AT A GLANCE

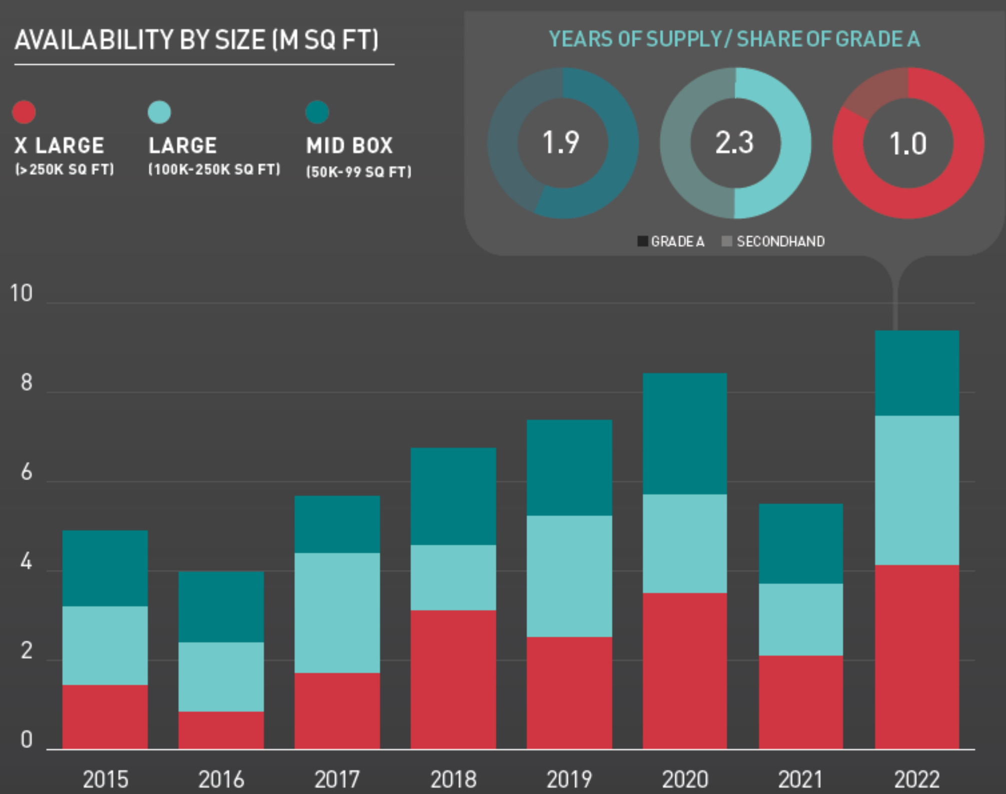
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
5.5m	-18%	9.4m	1.4	4.2%	4.7m (25)

EMPHATIC SUPPLY REBOUND

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)



DEMAND

Take-up in 2022 was markedly down on the huge record set in 2021, standing at 5.5m sq ft and 18% below the five-year annual average. Activity was also comparatively muted, with 23 deals in the year down from 42 in 2021 and the lowest since 2018. The XL segment held up best, with seven deals accounting for a substantial 76% of the region's total annual take-up, the largest being Next's major 1.25m sq ft build to suit agreement at South Elmsall, in Q3.

While the XL segment continued to perform, the main drag on overall take-up was in the large segment. Here, activity slumped to a record annual low of only 418,000 sq ft and comprised just three deals, all of which took place at Verdion's iPort scheme in Doncaster. Meanwhile, activity in the mid box segment showed greater consistency compared with previous years, with take-up of 852,000 sq ft being only 13% below trend and dominated by secondhand space.

SUPPLY

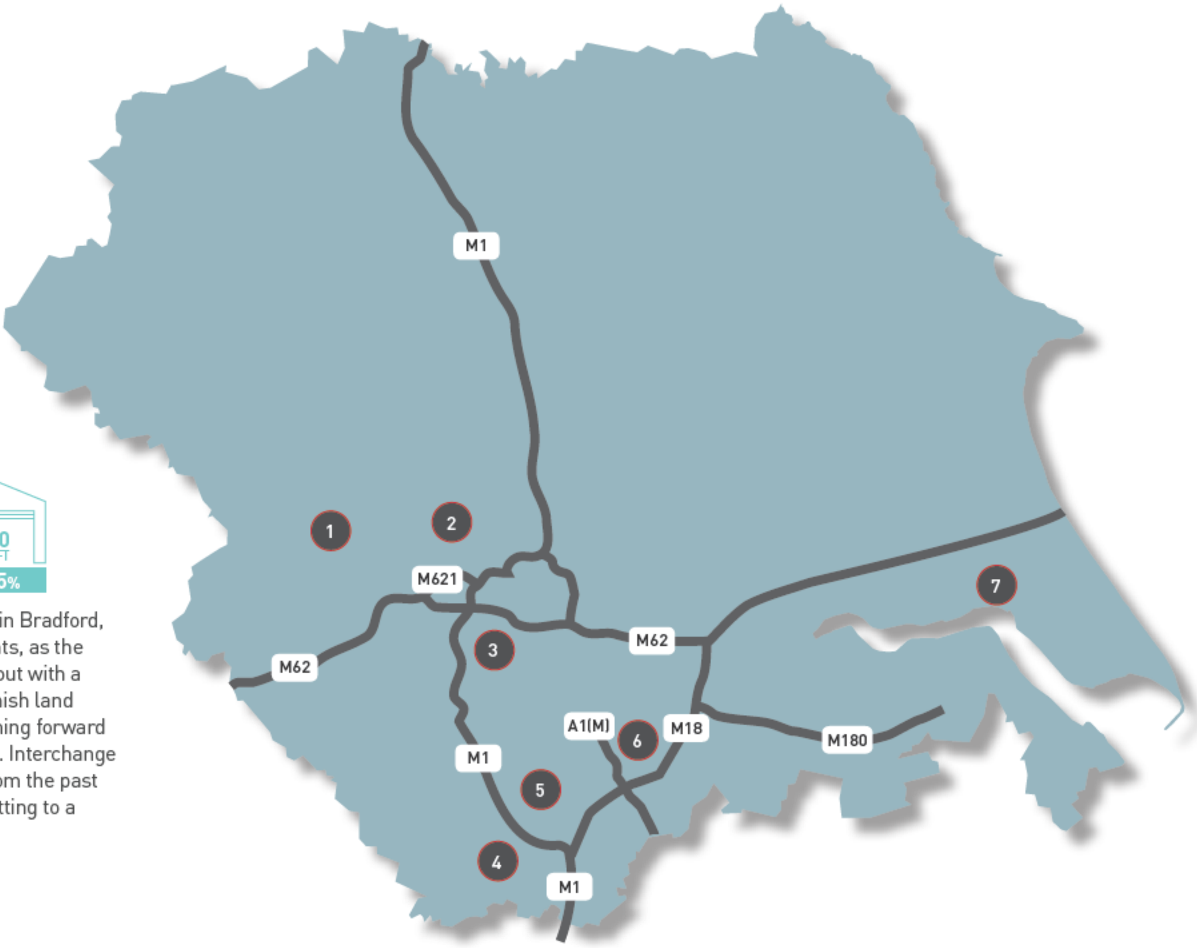
While demand has softened from the heights of 2021, a severe lack of ready-built, quality options throughout much of the year was arguably the main constraint on activity in 2022, especially in the large segment. More recently, however, a deluge of speculative development has driven an emphatic 72% rebound in supply levels over the year to stand at 9.4m sq ft. However, of the 6.1m sq ft of new build supply available, 60% is under construction.

The recovery in supply has been most evident at the larger end of the market, with availability essentially doubling in both the large and XL segments year-on-year. New build spec built space now accounts for a sizeable two thirds share of total supply in the region, while a record 4.7m sq ft of speculative development was underway across 25 separate units at the end of 2022. The largest of these by far is Big K, Konect 62, Knottingly, which measures 736,000 sq ft.

RENTS

Rental growth accelerated across the region's key markets in 2022, with rents for circa 50,000 sq ft units rising by an average of 16% and 11% for prime and secondary space respectively. Leeds, Wakefield and Sheffield all recorded growth of 21% over the year, in all cases pushing the prime rent to £8.50 per sq ft. While growth was relatively consistent across the region for secondary space in 2022, Hull led with rents rising by 13% year-on-year to £6.75 per sq ft.

UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %



1 BRADFORD

20K	50K	100K
£8.25 PER SQ FT	£7.75 PER SQ FT	£7.50 PER SQ FT
+6%	+15%	+15%

There has been a slight slowdown in activity in Bradford, particularly in the mid box and large segments, as the majority of deliverable sites have been built out with a lack of new opportunities emerging to replenish land supply. 4th Industrial's Interchange 26 is coming forward speculatively and will complete in early 2023. Interchange 26 is also home to Bradford's largest deal from the past 12 months, with an occupier recently committing to a design and build at Super B (230,000 sq ft).

2 LEEDS

20K	50K	100K
£8.75 PER SQ FT	£8.50 PER SQ FT	£8.00 PER SQ FT
+9%	+21%	+23%

New development is progressing speculatively at Firethorn's Sherburn 42 scheme, with 660k sq ft being delivered across four units during 2023. Elsewhere, there are a number of development sites gradually coming forward across the region. Capitol Park, Baytree Logistics and Chancerygate's T45 are all edging towards seeing steel being erected on site in the near future, once planning matters have been resolved.

3 WAKEFIELD

20K	50K	100K
£8.75 PER SQ FT	£8.50 PER SQ FT	£8.00 PER SQ FT
+9%	+21%	+23%

The lack of available consented development land hampered occupier market activity in 2022, although the recent refurbishments of Voltaic and California 400 have given a much-needed boost. Positively, Mountpark now looks set to bring forward a significant amount of space at Ferrybridge, while Henderson Park is now on site at Konect. Prism Park, Glasshoughton is rumoured to have secured an occupier at a record headline rent while, in the mid box segment, Global Investor's Latitude scheme has set new headline rents, providing a key marker for competing schemes across the region.

4 SHEFFIELD

20K	50K	100K
£8.75 PER SQ FT	£8.50 PER SQ FT	£8.00 PER SQ FT
+9%	+21%	+23%

Sheffield is home to a wave of development at present, providing strong competition for prospective occupiers. On the back of a successful first phase, PLP is bringing forward the second phase at Bessemer Park, while Trammel Crow has entered the Yorkshire market with a bang, speculatively delivering a 367k sq ft spec unit at its CORE scheme. Elsewhere, Mirastar is also boosting supply with its Catalyst scheme while Urban Logistics is delivering a 130k sq ft unit at Newhall Road.

5 ROTHERHAM

20K	50K	100K
£8.00 PER SQ FT	£7.25 PER SQ FT	£7.00 PER SQ FT
+10%	+7%	+12%

Rotherham boasted one of the region's largest deals in 2022, with Panattoni securing AAG at its substantial 630,000 sq ft spec unit. An additional 80,000 sq ft unit is also underway at Panattoni's Rotherham site, while a single 72,000 sq ft unit is under construction at Hellaby Industrial Estate. While not historically regarded as a big box location, Rotherham is performing extremely well in comparison with other South Yorkshire sub-markets, proving that high quality specification and strong labour dynamics are fundamental to attracting occupiers.

6 DONCASTER

20K	50K	100K
£8.25 PER SQ FT	£7.75 PER SQ FT	£7.50 PER SQ FT
+6%	+15%	+15%

Doncaster had a strong year for large format take-up, with circa 2.5m sq ft of transactions seen for units in excess of 100k sq ft. Verdion continues to make great strides at its iPort scheme, where 1.75m sq ft will be delivered through the final phase of the scheme, in the process delivering much-needed supply for the region. Elsewhere, Blackbrook and Panattoni are also boosting supply with units of c. 400k sq ft under construction at their respective Eclipse and Doncaster Airport schemes.

7 HULL

20K	50K	100K
£7.50 PER SQ FT	£7.25 PER SQ FT	£6.50 PER SQ FT
+7%	+7%	+4%

While Hull had a relatively standard year in 2022, with the majority of activity comprising smaller and medium-sized transactions, 2023 has started with a bang. Paneltex, having successfully won the contract to produce cargo boxes for Volta Trucks, agreed to lease a 140,000 sq ft unit at Dianthus Business Park, Newport. 2022 also saw a 30 acre site sold off market at St Andrews Quay, although it is not clear what form or mix of uses the development will contain over the long term.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
WAKEFIELD	NEXT E3, FIELD LANE, SOUTH ELMSALL	2022 Q3	1,250,000	LET (NEW SPEC)	UNDISCLOSED	NEXT
DONCASTER	REDHOUSE DISTRIBUTION CENTRE	2022 Q3	792,250	LET (SECONDHAND)	£6.50	B&Q
ROTHERHAM	ROTHERHAM 630	2022 Q4	629,417	LET (NEW SPEC)	£6.75	ALLIANCE AUTOMOTIVE GROUP
DONCASTER	MAMMOTH 602, G PARK, DONCASTER	2022 Q3	601,761	LET (NEW SPEC)	£6.50	MAERSK
DONCASTER	G PARK, DONCASTER	2022 Q2	278,000	LET (SECONDHAND)	£6.75	MCGREGOR LOGISTICS LIMITED

Source for all data unless stated: LSH Research

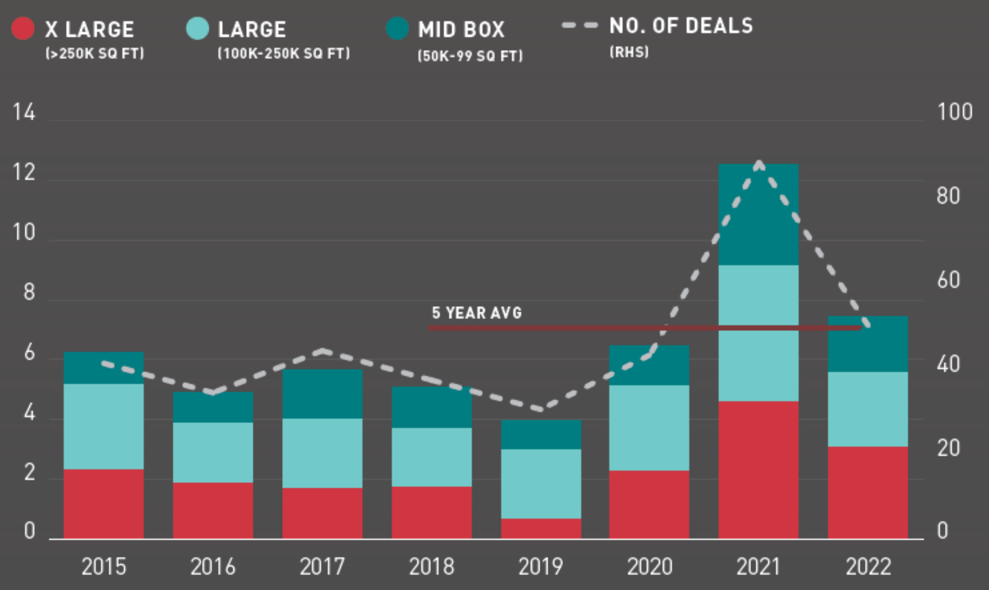
NORTH WEST

AT A GLANCE

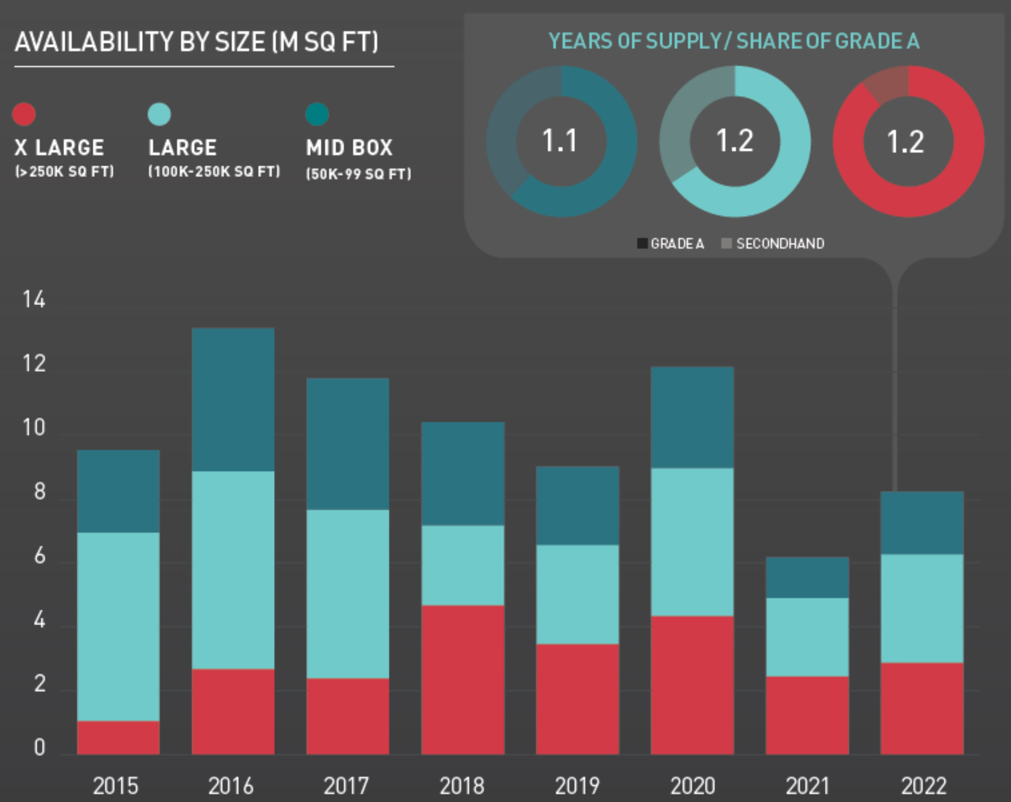
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
7.5m	+5%	8.2m	1.2	3.0%	3.3m (21)

DOWN BUT STILL STRONG

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)



DEMAND

After records were smashed in 2021, the North West market returned to earth in 2022 with take-up falling by 40% to 7.5m sq ft. Despite this being an abrupt drop from 2021's exceptional total, 2022 was still the second strongest year on record. The year-on-year drop in take-up was fairly consistent across the size bands, albeit led by the large segment, where activity fell by 45% to 2.5m sq ft. Another common feature throughout the segments was that the sharpest drops in take-up were all for secondhand space.

Take-up in the XL segment amounted to 3.1m sq ft, with new spec builds accounting for the majority of this. Three 500,000 sq ft-plus deals were completed during the year, the largest of which was Peugeot's 668,000 sq ft commitment at Hooton Park Airfield, Ellesmere Port. Aside from this, retailers and third-party logistics providers were responsible for nearly all of the year's biggest transactions.

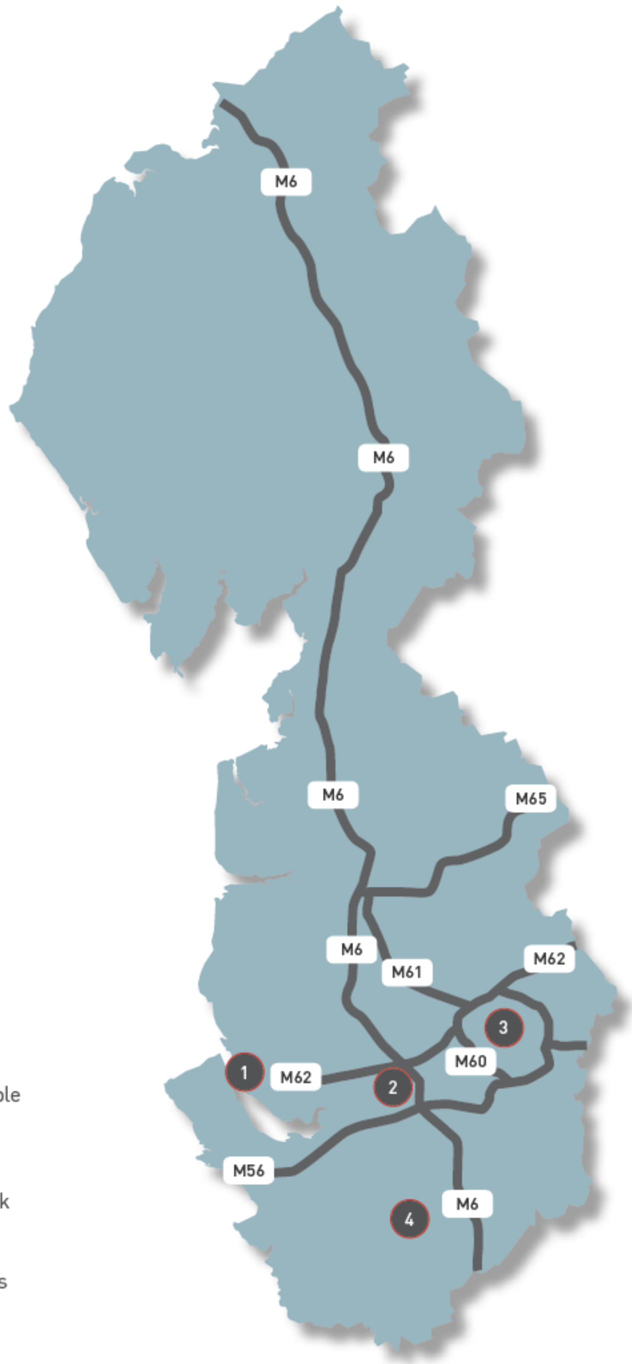
SUPPLY

Availability increased by 33% during 2022 to reach 8.3m sq ft, which equates to 1.2 years of average annual take-up. The mid box segment saw the largest increase, with availability rising by 51% to 2.0m sq ft. However, the other size bands also saw growth, with large and XL segment availability increasing by 40% and 17% respectively. While XL supply of 3.4m sq ft was almost entirely comprised of new spec builds, availability in the large segment of 2.9m sq ft offered a greater volume of secondhand space.

A total of 3.6m sq ft of speculative space in 24 units was under construction at the end of 2022. While this gives the North West one of the largest speculative pipelines of any UK region, these projects are attracting strong occupier interest, which is expected to translate into leasing transactions in early 2023. Several units are under offer, and availability has already diminished with the letting to PLP Crewe 460 (456,735 sq ft) to TK Maxx in January.

RENTS

Prime rents for 50,000 sq ft units rose by an average of 9% across the North West's key markets in 2022. The strongest growth came in Crewe, with a 15% increase to £7.50 per sq ft. Warrington's prime rents rose by 9% to £9.00 per sq ft, overtaking Manchester as the North West's most expensive market. Prime rents in Liverpool and Manchester increased by 7% and 6% respectively. Secondary rents grew at only a marginally slower pace than the prime figures, increasing by a regional average of 8%.



UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 LIVERPOOL

20K	50K	100K
£8.00 PER SQ FT	£7.75 PER SQ FT	£7.25 PER SQ FT
+7%	+7%	+7%

Stoford's 668k sq ft bespoke pre-let to Peugeot at Ellesmere Port grabbed the headlines in a year notable for large scale speculative deliveries and big box transactions. H1 saw Mirastar lease Widnes 400 and Widnes 258 to NHS and Kammac respectively. While Firethorn's 655k sq ft speculative commitment at Link Logistics Park, Ellesmere Port fell through in H2, rumoured interest should lead to a deal being done here in H1 2023. Marshall is understood to have plans for a c. 550k sq ft cross-dock facility in Widnes, albeit reluctance to now speculatively commit will mean relying on a pre-let.

2 WARRINGTON

20K	50K	100K
£11.00 PER SQ FT	£9.00 PER SQ FT	£8.25 PER SQ FT
+29%	+9%	+6%

Prime M6 access and a shortage in supply continues to place significant upwards pressure on rents. 2022 saw all notable speculative space continuing to be let prior or shortly post completion. 2022's standout transaction was Iceland's 505,000 sq ft pre-let at Omega West in Q2. Alpha 167 (Sykes Seafood) and Super W (Farmfoods) represented further reward for speculative endeavour. Evo will potentially achieve record rents on EVO 89, with aggressive rents also being quoted on secondhand space. With tight supply continuing to fuel rental growth, all eyes will be on further much-needed speculative commitments into 2023.

3 MANCHESTER

20K	50K	100K
£11.00 PER SQ FT	£8.75 PER SQ FT	£8.50 PER SQ FT
+29%	+6%	+10%

Q4 2022's most notable deal saw Supreme Imports lease 168k sq ft at Ark, while Victoria Plum is under offer on a bespoke 545k sq ft pre-let at Connect 6, Leyland. As with the wider region, particularly tight supply is placing upwards pressure on rents, which have now breached double digits in the mid box size bracket. We expect this dynamic to persist into 2023 with limited speculative pipeline committed. H1 saw record land values achieved with GLP paying £2.35m per acre in Trafford Park at the peak of the market, albeit construction of the circa 220k sq ft scheme is not expected until 2024.

4 CREWE

20K	50K	100K
£8.00 PER SQ FT	£7.50 PER SQ FT	£7.50 PER SQ FT
+19%	+15%	+15%

Crewe and the surrounding areas witnessed a good level of activity in 2022 with prime speculative space readily absorbed. Ergo 123 and Ergo 55 at Middlewich have both successfully let, followed in Q4 by deals on a combined 170k sq ft at Tritax's MA6NITUDE. In early 2023, TK Maxx agreed to lease PLP Crewe 460 at a rumoured £7.50 per sq ft, with competing interest translating into rental growth. Panattoni and Warehouse REIT have consent for two phases comprising c. 2.2m sq ft at the former BAE Systems site in Crewe, the first phase of which is expected to deliver 800k sq ft across six units towards the end of 2023.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
ELLESMERE PORT	HOOTON PARK AIRFIELD	2022 Q2	668,000	PRE-LET (BUILD TO SUIT)	UNDISCLOSED	PEUGEOT
WIDNES	WIDNES 258	2022 Q3	257,500	LET (NEW SPEC)	£6.95	KAMMAC
WARRINGTON	SUPER W WARRINGTON	2022 Q3	246,136	LET (NEW SPEC)	£6.91	FARMFOODS
KNOWSLEY	UNIT 1, SYMMETRY PARK	2022 Q3	161,900	LET (NEW SPEC)	£7.25	YODEL
MIDDLEWICH	ERGO 124	2022 Q3	124,224	LET (NEW SPEC)	£7.25	DB SCHENKER

Source for all data unless stated: LSH Research

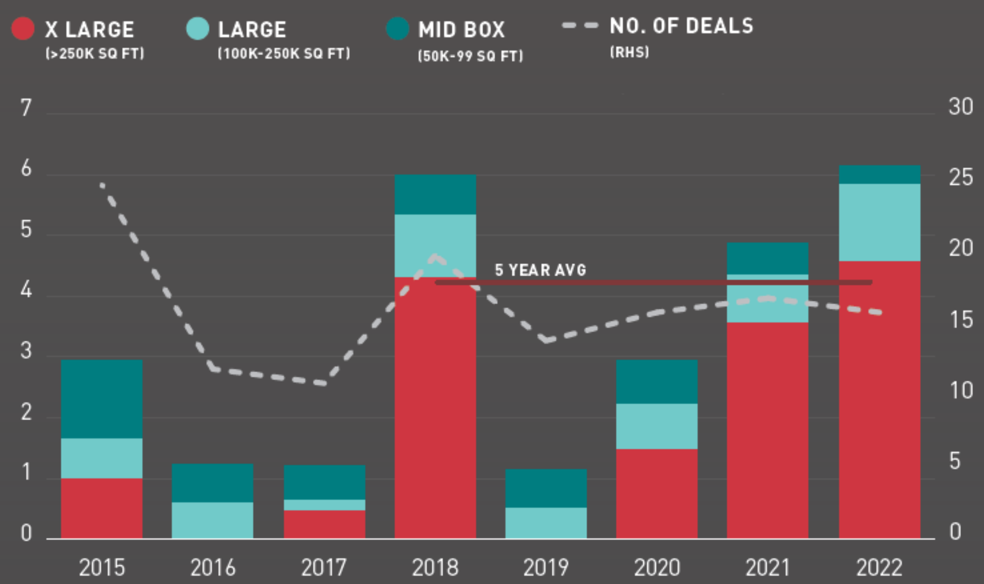
NORTH EAST

AT A GLANCE

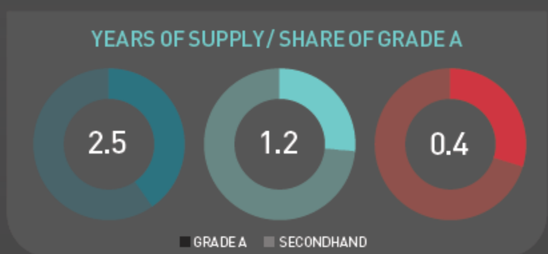
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
6.1m	+45%	3.4m	0.8	4.0%	935k (9)

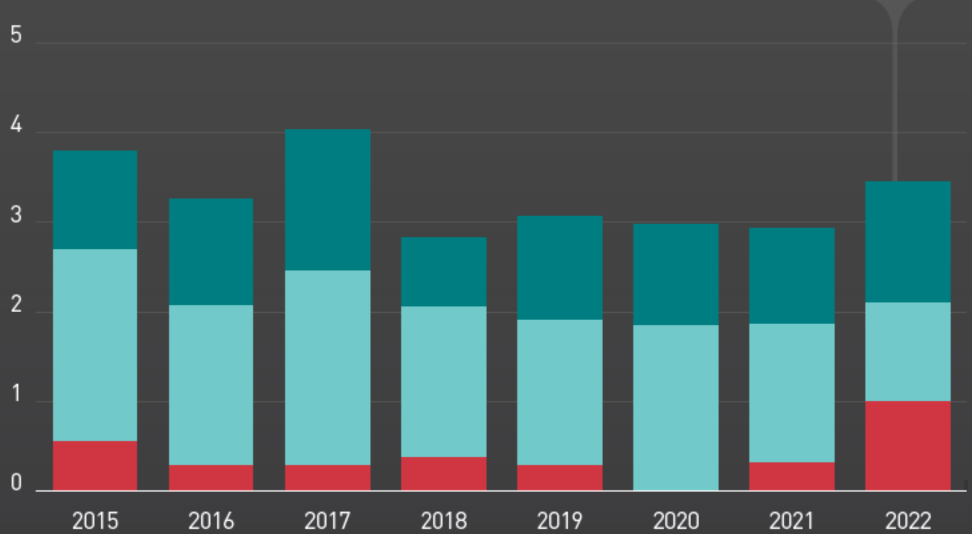
SPECS APPEAL

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

The North East was one of only two UK regions to boast a record year of take-up in 2022. While the depth of activity was little different from previous years, the record was entirely due to the occurrence of several colossal build to suit commitments durng the second half of 2022 to manufacturers in the low carbon technologies arena. This included commitments from SeAH Wind and Green Lithium, Teeside and Nissan / Envision AESC's gigafactory in Sunderland, all of which were in excess of 1m sq ft.

Take-up in the large unit segment was 1.4m sq ft in 2022, 56% above the five-year annual average and the highest level in over a decade. Reflecting a long, distinct lack of spec development until recently, all bar one of the large segment deals involved secondhand space, the exception being Lanchester Group's 235,000 sq ft build to suit commitment for a new bottling facility at Greencroft Two, Stanley. Meanwhile, the mid box segment was quieter in 2022, with take-up of 459,000 sq ft 25% below trend.

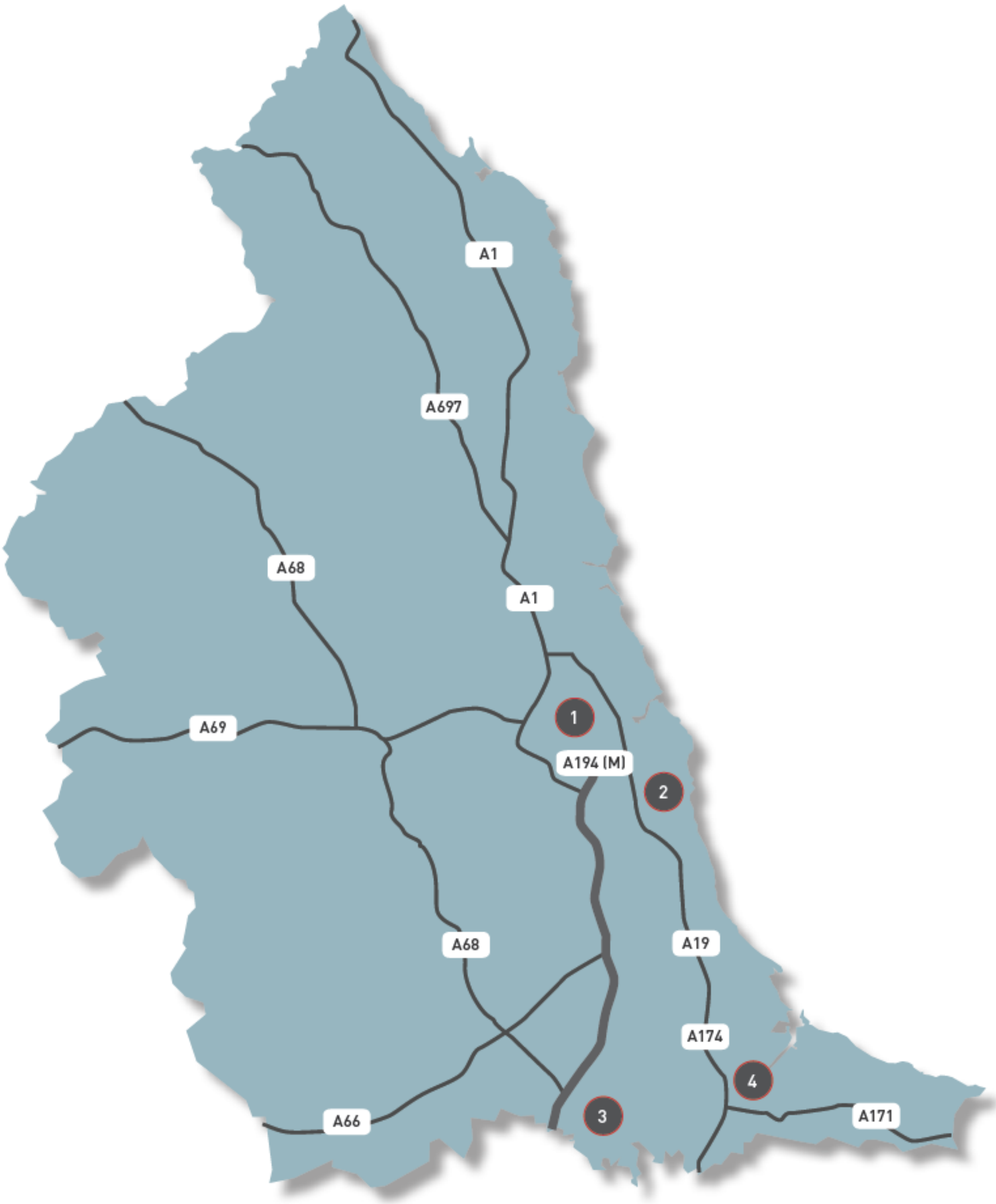
SUPPLY

Having been broadly stable over recent years, total supply picked up by 16% in 2022 to stand at 3.4m sq ft. However, the rise was predominantly due to several units in the XL segment hitting the market, as opposed to market-wide expansion in availability. Moreover, the underlying make-up of supply shifted considerably over the year, with a 31% fall in availability in the large segment partly offset by a 26% rise in the mid box segment.

After a decade-long absence, spec development has made a welcome return to the North East. At the end of 2022, there were nine units under construction across three separate schemes totalling 934,000 sq ft. These comprise Hillthorn Park and Turbine Business Park around Washington and Connect at Integra 61, Durham. The latter includes five units, the largest of which measures 297,500 sq ft, with further phases planned at this key mixed-use site over the years ahead.

RENTS

While the much-needed arrival of new build space to the market is an exciting prospect, the North East has not played much of a role in the rental growth phenomenon that has swept through much of the UK industrial and logistics market. After a modicum of growth in 2021, prime rents in the key markets of the North East increased by an average of 4% in 2022, the lowest of any UK region. Meanwhile, secondary space saw average rental growth of 5%, the UK's weakest after Wales.



UNIT SIZE SQ FT
PRIME RENT PER SQ FT
YOY CHANGE %

1 NEWCASTLE-UPON-TYNE / GATESHEAD

20K	50K	100K
£7.50 PER SQ FT	£7.00 PER SQ FT	£6.50 PER SQ FT
+0%	+4%	+4%

The Newcastle/Gateshead market is dogged by a lack of available stock across all sizes and tenures, particularly freehold opportunities, which will ensure values remain stable in the short term despite the economic headwinds. A number of mid box enquiries remain to be satisfied. At the Tyne Tunnel Trading Estate, a good barometer of market conditions will be provided by the lease terms ultimately agreed on the 57,000 sq ft unit L5 at Intersect 19. Following the recent collapse of Britishvolt the market awaits to see whether plans for the proposed new £3.8 billion gigafactory in Blyth can be rekindled with the preferred bidder, Recharge Industries.

2 SUNDERLAND/WASHINGTON

20K	50K	100K
£6.75 PER SQ FT	£6.50 PER SQ FT	£6.25 PER SQ FT
+0%	+4%	+4%

Construction has begun on Envision AESC's second gigafactory in Sunderland, which will manufacture electric vehicle batteries for Nissan. Meanwhile, the Washington market eagerly awaits delivery of Phase 1, Hillthorn Park which comprises eight units ranging from 21,000 to 83,000 sq ft. Encouragingly, a number of the units are already under offer with the transactions likely to secure record rents for the region of c. £6.75 to £7.75 per sq ft. This will cement the area around the A19, A194(M) and A1(M) as one of the premier industrial locations in the North East region.

3 DARLINGTON

20K
£5.00 PER SQ FT
0%

Darlington is benefitting from an injection of much-needed grade A space. The market is awaiting delivery of Equation's Reflex Park, totalling 200,000 sq ft in two units, Symmetry Park's 630,000 sq ft scheme and a development by Premcor, all alongside the 1.5m sq ft Amazon hub. A new link road is now under construction to open up land on the southern side of the airport. Existing stock is dominated by the 390,000 sq ft former Cleveland Bridge site which is available to let.

4 MIDDLESBROUGH/ STOCKTON ON TEES

20K
£6.00 PER SQ FT
0%

July saw construction commence on SeAH Wind's mammoth 1.13m sq ft offshore wind monopiling manufacturing facility at Teesworks, which will be the largest of its kind in the world once operational. Meanwhile, Green Lithium announced in November that it will build the UK's first lithium refinery at PD Ports' Teesport. Following the closure of the steelworks, these are massive boosts for the Teesside economy and should act as a catalyst for future projects in the area.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
TEESSIDE	TEESWORKS	2022 Q3	1,130,000	LAND PURCHASE (BUILD TO SUIT)	UNDISCLOSED	SEAH WIND
BLYTH	CAMBOIS	2022 Q4	742,709	LAND PURCHASE (BUILD TO SUIT)	UNDISCLOSED	JDR CABLES
WALLSEND	NORTHUMBERLAND DOCK ROAD*	2022 Q1	186,530	FREEHOLD PURCHASE (SECONDHAND)	£15.95	NORTHUMBRIAN WATER
PETERLEE	UNIT C, PARAGON	2022 Q3	159,771	LET (SECONDHAND)	£3.75	THE STORAGE PLACE
SUNDERLAND	3 CHERRY BLOSSOM WAY	2022 Q3	100,815	LET (SECONDHAND)	£6.20	NISSAN MOTOR MANUFACTURING

*LSH ACQUIRED FOR THE OCCUPIER

Source for all data unless stated: LSH Research

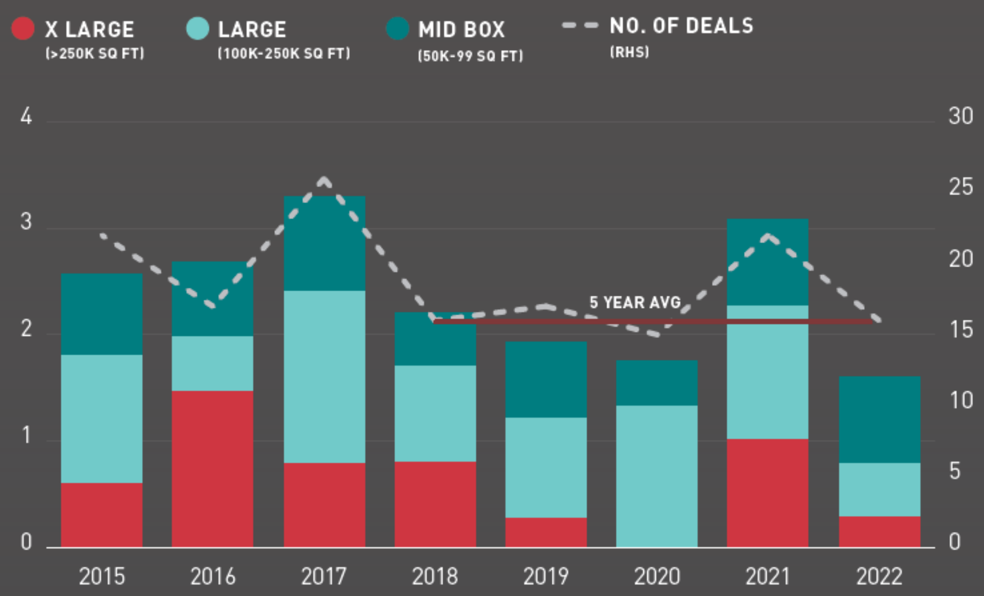
WALES

AT A GLANCE

2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
1.6m	-24%	3.6m	1.7	4.2%	274k (3)

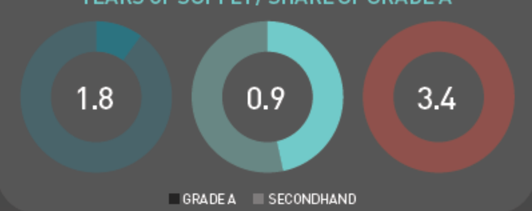
NEW SPEC FOR NEWPORT

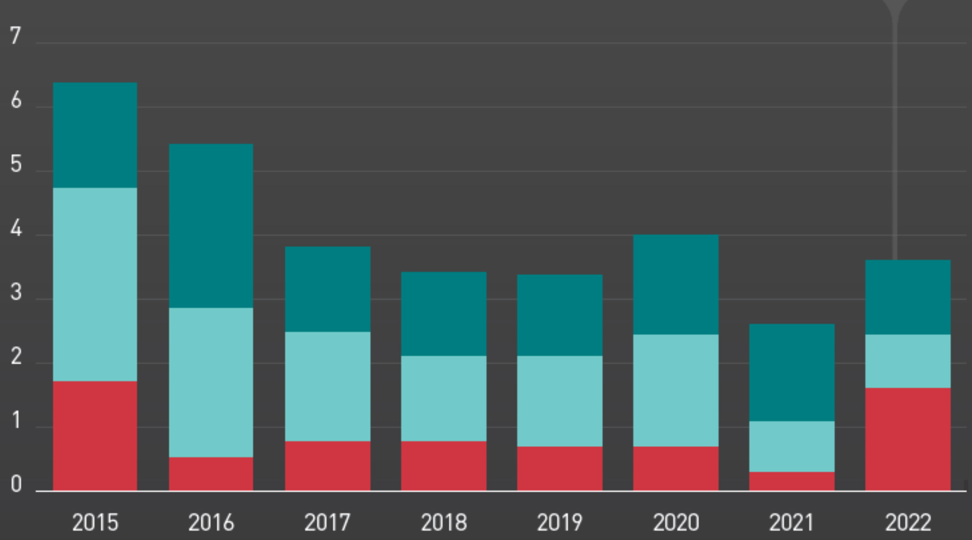
TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)

YEARS OF SUPPLY / SHARE OF GRADE A





DEMAND

At 1.6m sq ft, take-up in 2022 was well short of 2021's total, albeit that year was boosted by a massive 1m sq ft data centre deal in Newport. Indeed, the largest of 2022's 16 deals and the only deal in the XL segment measured 290,000 sq ft, namely catering firm Nisbet's lease of Delta 290 (290,000 sq ft), Chepstow in Q2 2022. That said, the large segment was the most subdued relative to trend in 2022, with take-up 50% below the annual average.

Strong performance in the mid box segment was maintained, however, with take-up in 2022 being closely in line with 2021's total and 26% above the five-year average. Secondhand space dominated activity in the year across all size-bands, the sole new-build deal being Owens Group's design and build pre-let of Cubex155 (155,000 sq ft) at Junction 23A of the M4.

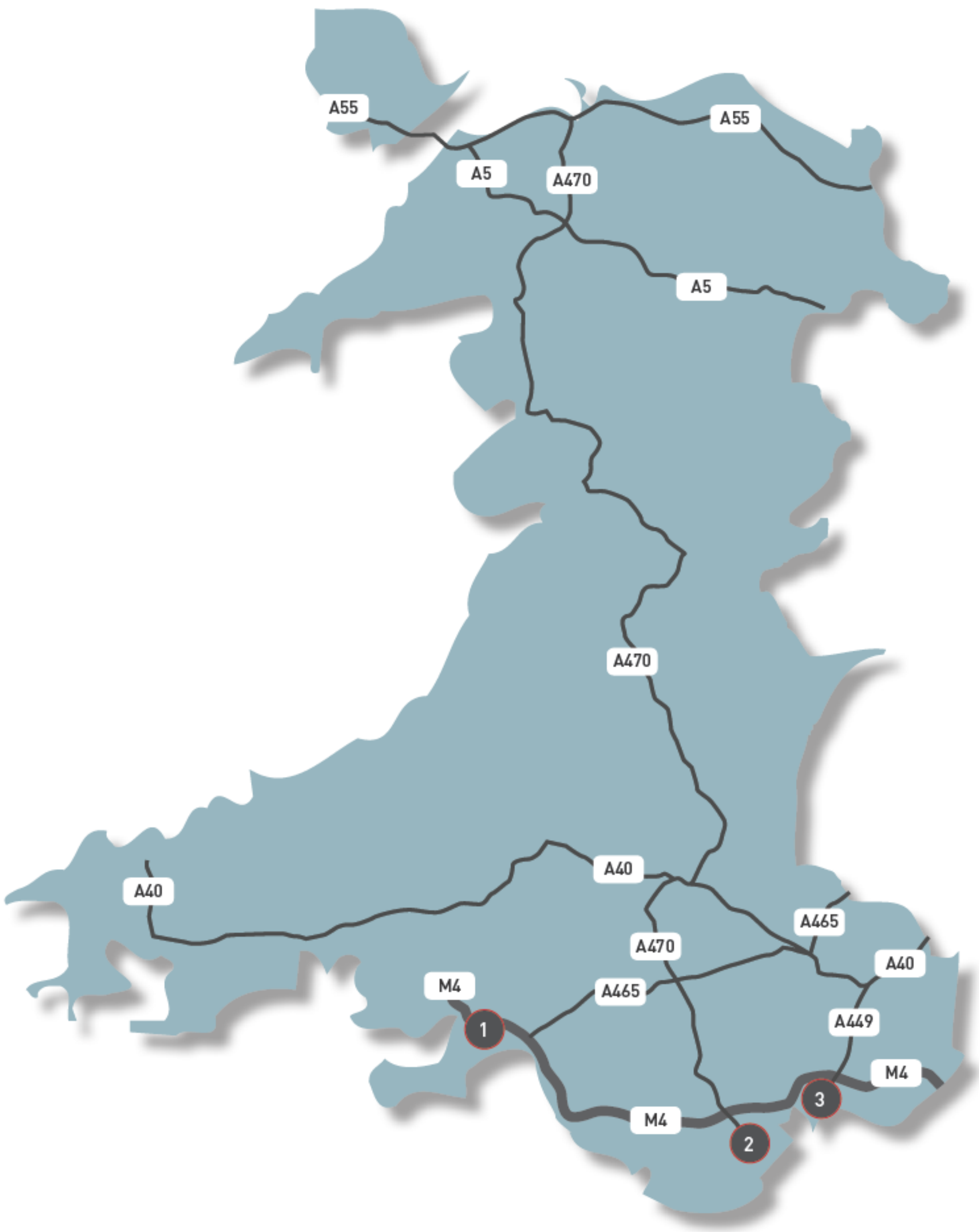
SUPPLY

Supply rebounded by 39% from 2021's record low to stand at 3.6m sq ft at the end of 2022. The increase is likely to prove temporary, however, as the 1.6m sq ft former Ford site at Bridgend is already understood to be under offer, having only hit the market in 2022. Moreover, options generally remain extremely thin at the larger end of the market, with large segment supply equivalent to less than one year of average take-up.

Positively, however, South Wales' long wait for spec development at scale finally ended in 2022. St. Modwen is currently underway on three units at St. Modwen Park Newport totalling 273,745 sq ft, with completion scheduled towards the end of 2023. North Wales has also benefitted from a degree of spec development, with two new completions in 2022 comprising Deeside 63 (63,000 sq ft), Flintshire and Unit 2 Bryn Lane (175,000 sq ft), Wrexham Industrial Estate.

RENTS

While other parts of the UK recorded another year of exceptional rental growth in 2022, growth in Wales was sporadic. Reflecting the much-needed injection of new build supply, Newport was the only key South Wales market to see prime rental growth during 2022, with rents for 50,000 sq ft units rising by 15% to £7.50 per sq ft. Notably, having long been at a discount to the Welsh capital, Newport's rise puts its rental level into line with Cardiff. Meanwhile, secondary rents saw no degree of uplift across the key markets in 2022.



UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

1 SWANSEA

Unit size	Prime rent	YoY change
20K	£6.00 PER SQ FT	+9%
50K	£5.25 PER SQ FT	0%
100K	£4.50 PER SQ FT	0%

Swansea remains a great potential location waiting to be unlocked. However, as with South Wales generally, land supply is very scarce. The 3M site offers 40 acres but does have several challenges for developers. Frustratingly, many local occupiers that are tied to the region are seeing their expansion plans stymied by a lack of suitable built stock. The success of developments in Bridgend and the impending sale of the former Ford site will hopefully give developers confidence to keep moving further west down the M4.

2 CARDIFF

Unit size	Prime rent	YoY change
20K	£8.00 PER SQ FT	+0%
50K	£7.50 PER SQ FT	+0%
100K	£7.00 PER SQ FT	+0%

Activity benefitted from larger secondhand stock coming back to the market in 2022, with Owens Group's 95,000 sq ft at Cold Stores Road setting a new headline rent for a unit of that size. Requirements are still strong, particularly in the 10,000 sq ft to 30,000 sq ft range and this is likely to be the next focus of development for the city and surrounds. Trebor's apparent success in Pencoed, where 50,000 sq ft of new build space is under offer, will hopefully give developers confidence in the Cardiff market to push on with more new development in 2023.

3 NEWPORT

Unit size	Prime rent	YoY change
20K	£8.00 PER SQ FT	+23%
50K	£7.50 PER SQ FT	+15%
100K	£6.95 PER SQ FT	+11%

Newport and its surrounds are going from strength to strength in both the new build and secondhand market. St. Modwen Park Newport is a key focus for development activity, with four units totalling 116,000 sq ft completed in Q4 2022 and the next phase comprising 273,745 sq ft due in Q3 2023. There were a flurry of leasing transactions in the area towards the end of 2022, including Owens Transport's 155,000 sq ft pre-let at Cubex155. The connectivity of the M4 is also helping valley towns such as Ebbw Vale and, as ties with Bristol deepen, occupiers increasingly regard the area as a viable location.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
CALDICOT	CUBEX155	2022 Q4	155,000	PRE-LET (BUILD TO SUIT)	£7.25	OWENS GROUP
BANGOR	PARC BRITTANIA	2022 Q3	131,120	LET (SECONDHAND)	£3.81	FIRST HYDRO COMPANY
PONTYPOOL	UNIT 2 NEW INN	2022 Q2	108,922	FREEHOLD PURCHASE (SECONDHAND)	£32.13	MORGANS OF USK LTD
TREDEGAR	UNIT 3 TAFARNAUBACH INDUSTRIAL ESTATE	2022 Q4	103,542	LET (SECONDHAND)	£3.40	ENERGIZER AUTO UK LTD
CARDIFF	P SHED, COLD STORES ROAD	2022 Q3	95,207	LET (SECONDHAND)	£6.50	OWENS GROUP

Source for all data unless stated: LSH Research

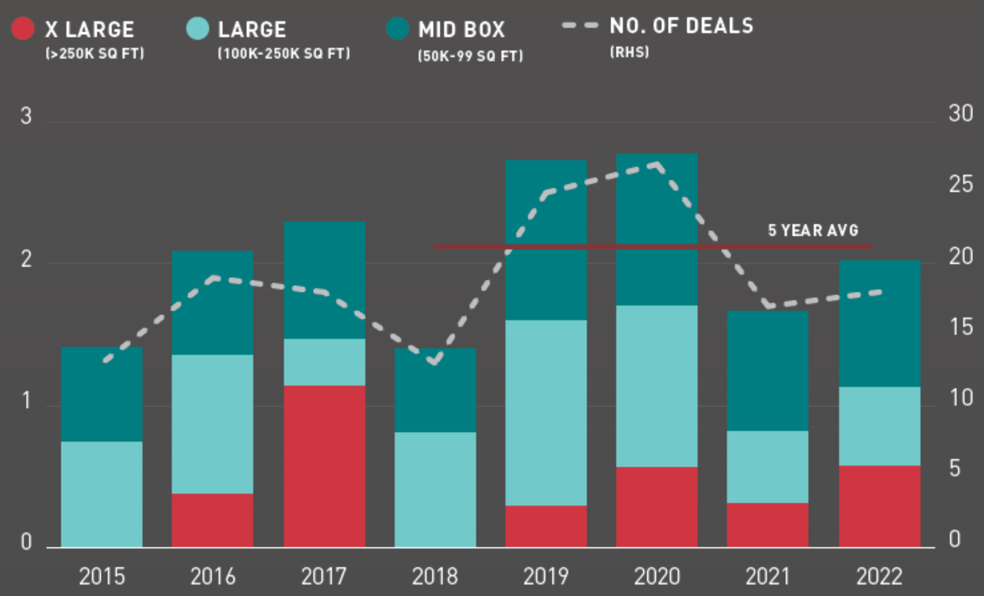
SCOTLAND

AT A GLANCE

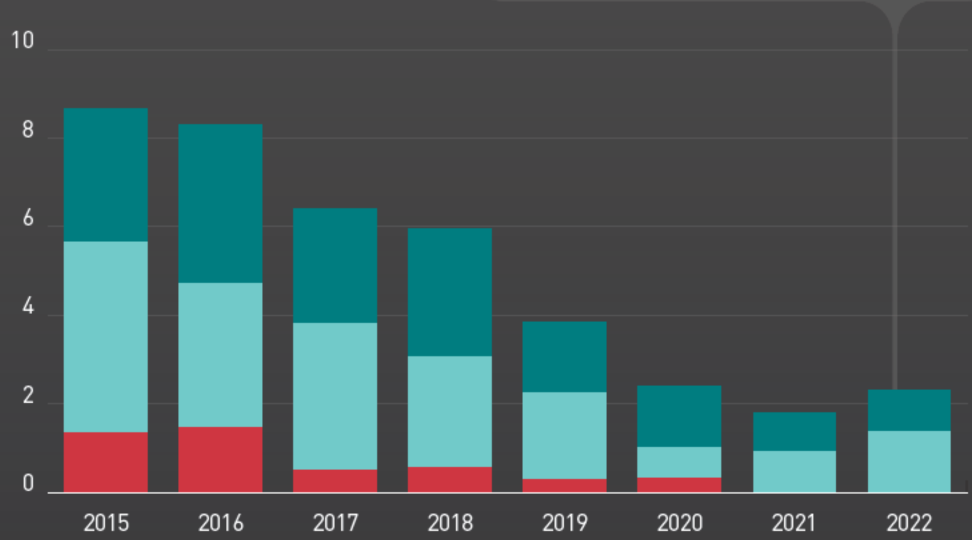
2022 TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	AVAILABILITY RATE	SPEC U/C SQ FT (NO. SCHEMES)
2.0m	-5%	2.3m	1.1	2.0%	127k (1)

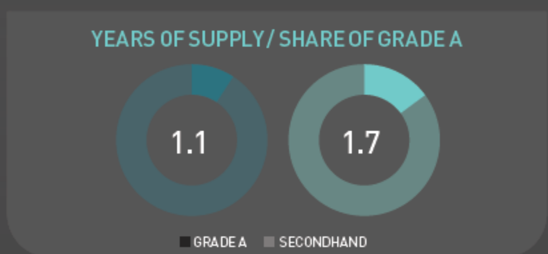
SUPPLY FINALLY EDGES UP

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Scotland saw take-up of 2.0m sq ft in 2022, up 21% from 2021's total but still 5% below the annual average. While 2022 saw an equal number of deals to 2021, take-up was boosted by publisher HarperCollins' commitment to a new 565,000 sq ft purpose-built facility at Nova Park, Glasgow. As with other parts of the UK, both take-up and activity were notably front-loaded into the first half of 2022, with H2 2022 accounting for only a quarter of annual take-up.

The HarperCollins move was one of only two transactions involving new-build space in 2022, the other being wholesaler Filshill's 123,034 sq ft design and build commitment at Westway Business Park, Refrew. Despite a reasonable number of secondhand options now being available, the large segment was the weakest relative to trend in 2022, recording only 563,187 sq ft of take-up across four deals. In contrast, the mid box segment had a relatively solid year in 2022, with take-up of 886,000 sq ft closely in line with the five-year annual average.

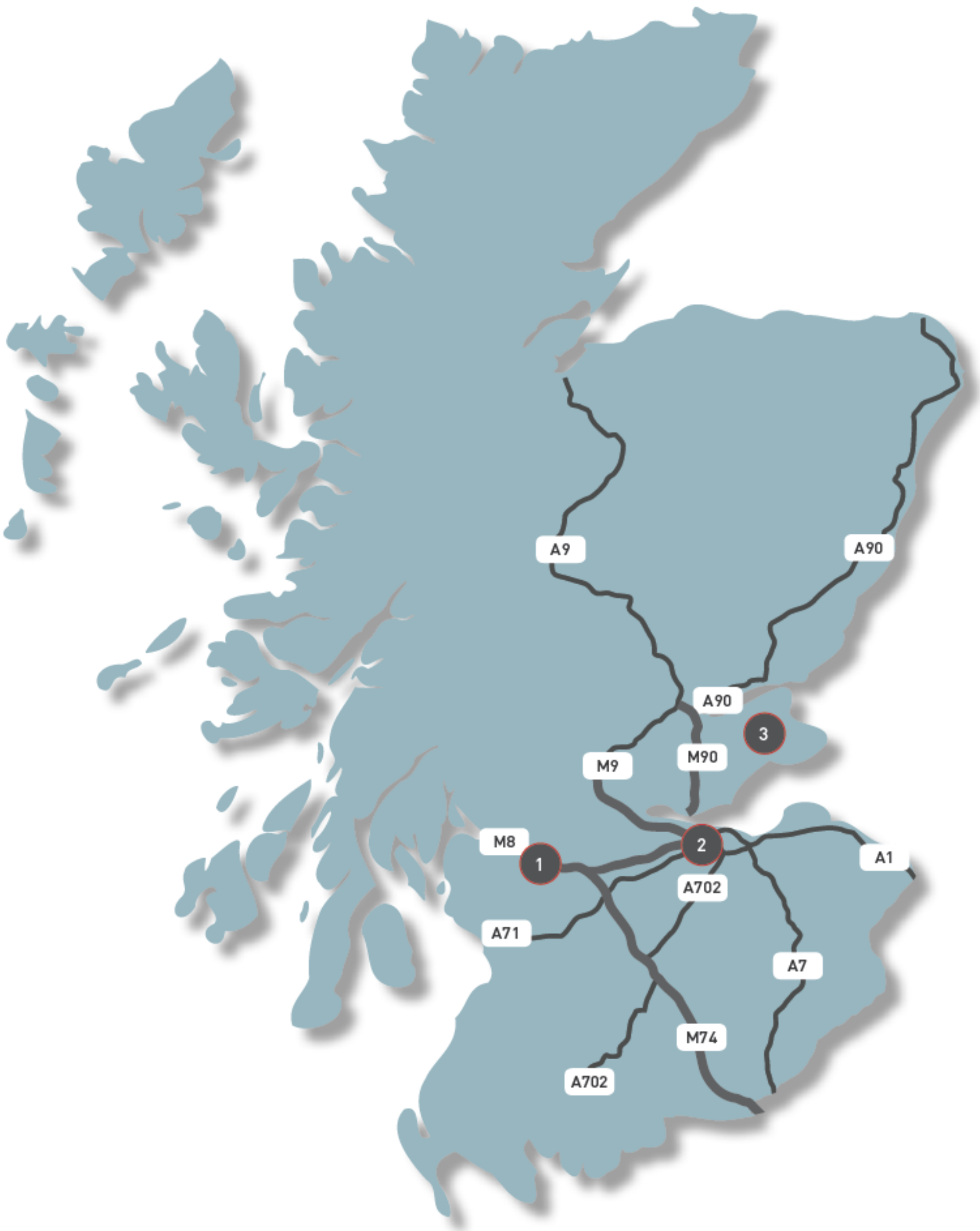
SUPPLY

After 12 consecutive years of supply contraction, availability in Scotland increased by 28% year-on-year to stand at 2.3m sq ft at the end of 2022. The addition of secondhand units in the large segment underpinned the uptick, with 12 units now available, the largest of which is a 211,829 sq ft facility at Bridge of Don Industrial Estate, Aberdeen. In contrast, the XL segment has remained devoid of any supply whatsoever for over two years, while mid box supply was relatively stable year-on-year.

After a decade-long absence, 2021 finally saw speculative development of logistics space return to Scotland. This has continued in 2022, albeit this remains largely confined to a single five-unit scheme, with the final phase of Knight Property Group's Belgrave Logistics Park, Glasgow due to complete in Q3 2023. Other than this, limited options for grade A space include several renovated units and a single mid box new-build spec unit at 75 Stanley Street, Glasgow (53,744 sq ft).

RENTS

New speculative development has sparked two successive years of prime rental growth in Scotland, with an average uplift of 9% recorded relatively evenly across the key markets in 2022. Fife saw the strongest growth, with prime rents for units of circa 50,000 sq ft increasing by 11% to £7.50 per sq ft. Secondary unit growth paralleled prime growth, with robust mid box occupier demand and a scarcity of new build availability contributing to upward pressure.



UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 GLASGOW/WEST OF SCOTLAND

20K	50K	100K
£9.00 PER SQ FT	£8.25 PER SQ FT	£8.00 PER SQ FT
+6%	+10%	+14%

While there are a wide range of active requirements in the market, occupiers are faced with a surfeit of ageing and obsolete stock. Industrial land is in short supply, but several key estates will be developed out over the next 18 months. Knight Property Group is developing Belgrave Logistics Park in Belshill, which will provide 261,193 sq ft over five buildings. The first four units were completed in Q4 2022, with two already being let, while a final 126,960 sq ft unit is due in Q3 2023. Meanwhile, Fusion Assets has completed the second phase of Gartcosh Industrial Park with two units totalling 40,846 sq ft, after phase one was let to DX Services.

2 EDINBURGH/LOTHIAN

20K	50K	100K
£12.50 PER SQ FT	£9.50 PER SQ FT	£8.50 PER SQ FT
+9%	+6%	+6%

Occupier demand has been strong over the last 12 months, helping to drive rents upwards. However, a lack of availability has restricted leasing activity and forced some occupiers to put their requirements on hold. Supply is only likely to become tighter in the immediate term, as rising build costs are deterring developers from committing to new build schemes. As a result, occupiers requiring space are being forced to either consider other locations or go down the design-and-build route.

3 FIFE

20K	50K
£8.50 PER SQ FT	£7.50 PER SQ FT
+10%	+11%

The planning process has started for Scarborough Muir Group's Queensferry One, a major new industrial and logistics hub at Rosyth. The project is on a 120-acre site next to the Queensferry Crossing and the M90 motorway, at the heart of the new Forth Green Freeport. The masterplan was revised in 2021 to primarily focus on high-specification industrial and logistics space, and design and build opportunities ranging from 10,000 to 500,000 sq ft are being offered. Industrial rents have risen over the last 12 months in Fife, and demand has been strongest for smaller sub-50,000 sq ft units.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
GLASGOW	NOVA PARK, ROBROYSTON	2022 Q2	565,000	PRE-LET (BUILD TO SUIT)	UNDISCLOSED	HARPERCOLLINS
TRANENT	EAST MAINS	2022 Q2	188,565	LET (SECONDHAND)	£21.99	CEFETRA LTD
MOTHERWELL	25 CODDINGTON CRESCENT	2022 Q3	149,643	LET (SECONDHAND)	£7.11	WINCANTON
RENFREW	WESTWAY BUSINESS PARK	2022 Q3	123,034	PRE-LET (BUILD TO SUIT)	£5.50	FILSHILL
MOTHERWELL	5 BRITTAIN WAY	2022 Q3	92,320	LET (SECONDHAND)	£6.75	GIST LTD

Source for all data unless stated: LSH Research

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KNOWLEDGE
NETWORK